Comments Received on Clarity Consultation Paper

Detailed Comments

Respondent  Respondent Comment

Understandability of IAASB Standards

Q1. Has the length and style of these standards aided or impaired their understandability and clarity? Please explain the reasons that are persuasive in reaching your view and provide examples that help illustrate your view.

AASB-CICA  The AASB has recently adopted, or is adopting, a number of ISAs, such as audit risk, fraud and quality control into Canadian standards. We believe that the length and complexity of these standards is problematic. This is evidenced by the fact that the number of responses to Exposure Drafts of these standards was considerably lower than for other proposed standards. We believe that respondents found the materials daunting due to their length and because they may be difficult to understand.

We have also received increased calls to provide summaries, analyses and more implementation guidance to assist practitioners, students and others understand and apply the standards. We believe that practitioners are increasingly relying on such summaries, analyses and guidance rather than referring to the standards themselves. We are also receiving more frequent requests to extend the implementation periods for new standards to allow time for such materials to be developed so that it accompanies new standards.

ACAG  Given the recent global focus on the auditing profession, it is appropriate that International Auditing Standards are sufficiently detailed so that the requirements of professional accountants are clearly articulated. The current length and style of the IAASB’s standards achieves this objective.

ACCA  The length and style of recent ISAs has impaired their understandability and clarity. It is difficult, however, to separate length and style from substance. If the subject of an ISA is complex and detailed it is difficult to deal with it in a concise manner. Length results from the need to cover the subject adequately. Furthermore, complexity also gives rise to additional length because terminology and sentence construction are driven by the need to achieve precision in meaning. Precision in meaning is generally thought to be essential to clarity. In the drafting of ISAs, the opposite is more often true, however, as the balance between understandability and precision has become distorted by the excessive detail of the language.

As an example, consider the first sentence of ISA 315 The Auditor’s Procedures in Response to Assessed Risks:
The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on determining overall responses and designing and performing further audit procedures to respond to the assessed risks of material misstatement at the financial statement and assertion levels in a financial statement audit.

There is really no need to include the words: ‘. . . at the financial statement and assertion levels in a financial statement audit’.

AICPA The issue of length is separate and distinct from the issue of clarity. We believe that drafting style and proper use of language, not the length, affects the clarity of a standard. A standard that is drafted in a style that clearly identifies the requirements and provides related (and necessary) guidance to the professional accountant will provide clarity irrespective of its length. There will be instances where a clear drafting style will mitigate the need for length. On the other hand, a “short” standard that provides only high-level principles as “requirements” without corollary guidance will provide less clarity. When additional guidance is provided, it may add to both the length and clarity of a standard. However, clearly expressed ideas and necessary guidance on implementation clarifies the principles, and contributes to the consistent application of those principles around the world.

APB In 1995 the APB issued its Statements on Auditing Standards (SASs). The SASs were closely aligned (both in style and content) with the ISAs in issue at that time. The introductory rubric to SASs stated ‘...they contain basic principles and essential procedures (‘Auditing Standards’) indicated by paragraphs in bold type, with which auditors are required to comply in the conduct of an audit. SASs also include explanatory and other material which is designed to assist auditors in interpreting and applying Auditing Standards’.

APB is not aware that there has been any uncertainty in the UK and Ireland as to the status of the ‘grey letter’ guidance in SASs or of any pressure to clarify it. Furthermore in 2000 the APB undertook a survey as to the usability of its standards and the overwhelming number of respondents confirmed that the SASs are clear and provide a satisfactory framework of standards.

The APB has followed closely the revision of the ISAs on audit risk and fraud and has consulted on them within the UK and Ireland. While the APB recognises (and supports) the need for some greater specificity within these standards the APB believes that the new ISAs 240, 315 and 330 contain too many bold letter requirements and, for the first time, APB has detected a concern as to the applicability of the standards from auditors of small entities.

AUASB The AUASB believes the understandability of and compliance with auditing standards is enhanced if their requirements are clear and concise. We believe the current structure, that is, bold letter requirements followed by explanatory guidance or commentary on implementation of those requirements should be retained. Nonetheless, we strongly encourage the IAASB to give much greater consideration to the style, length and general nature in which auditing standards are expressed.

We appreciate some of the new ISAs have dealt with complex issues from both a business and audit perspective; nevertheless ISAs have become increasingly
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<td>AUASB</td>
<td>Lengthy (especially the accompanying commentary). The AUASB believes this is neither conducive to their comprehension, understandability nor implementation by auditors, particularly for auditors from smaller practices with limited access to technical resources. We believe the explanatory guidance or commentary in ISAs ought to be more succinctly expressed and less discursive in its nature; perhaps it should be made somewhat similar to the format adopted in International Financial Reporting Standards.</td>
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<td>Basel</td>
<td>In general, regulators are supportive of longer and more detailed standards as they provide for a tighter regulatory environment and consistent application. Regulators also favor requirements with overarching principles.</td>
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<td>CEBS</td>
<td>The length of a standard is less of an issue that the understandability (coherence, clarity and consistency) of each standard. As regulators we are fully supportive of a principles based approach to auditing standards. However we also approve of detailed requirements to support the principles to ensure that there is clear and consistent application.</td>
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<td>CIPFA</td>
<td>On balance we believe that the length and style of the standards has impaired understandability and clarity. This is particularly the case with the risk ISAs which contain a great deal of detail but do not highlight precisely which aspects of controls auditors are required to identify, understand and in some cases test. This is a key issue especially for auditors of smaller entities where controls are frequently either non-existent or largely undocumented. There also appears to be a preference in drafting for the use of passive rather than active and negative rather than positive constructions which does not help understanding.</td>
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<td>CNCC-CSO</td>
<td>Yes, the increased length and detailed style of the standards has begun to create significant difficulties since the issuance of the revised fraud standard which preceded the current fraud standard approved in February 2004. These standards have been perceived by certain members of the profession as too long, overly detailed, difficult to understand and therefore unclear. Their style is seen as very repetitive and this is one of the reasons why the standards do not flow well. In France, the new style of the ISAs is jeopardising convergence, especially in view of the newly introduced legal backing of the standards.</td>
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<td>DnR</td>
<td>We believe that the change has impaired rather than aided the understandability and clarity of the standards as far as our members are concerned.</td>
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<td>DT</td>
<td>We have divergent views on this point within our member firms. Some believe that recent ISAs have moved away from the previous widely-accepted principles basis (repeatedly confirmed by the IAASB), to lengthy, detailed, repetitive, complex rules, inspired by highly regulatory environments applicable to public interest entities. This has impaired the overall understandability of the standards. Moreover this trend has clearly called into question the applicability and relevance of the standards to small and medium size entities. The recently issued standards such as those dealing with fraud or the audit risk model illustrate the concern.</td>
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<td>Others believe that the length and style of the recent ISAs are appropriate to the issues faced by the profession and that they are quite understandable and clear. They believe that the objections to length and style really are objections to the number and specificity of requirements.</td>
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<td>EC</td>
<td>The trend towards longer standards observed in recent releases may reflect a shift towards a more rules-based approach, which we do not approve (see § 1.7), but also the increasing complexity of the auditor’s environment.</td>
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<td>EY</td>
<td>In our view, the length and style of the recently issued standards has impaired understandability and clarity. As IAASB notes, the recent standards have dealt with complex issues, and have aimed to be comprehensive. To ensure consistent application, the drafting of complex issues needs to be very clear. Length is not a particular issue, in itself, if the drafting and structure of the standard are clear. However, the combination of a difficult style – in particular, long and complex sentences coupled with long, detailed paragraphs – with length will mean that the contents of the standards become difficult to apply. For examples, see the response to question 2 below.</td>
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<td>FAR</td>
<td>Length and style of the recent standards have impaired the understandability and clarity of the standards. For further details on that and the reasons for our view, please see our Introductory comment and the answers to the Policy Statement-questions above.</td>
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<td>FEE</td>
<td>Some recently issued standards like the risk ISAs are longer than previously issued International Standards and arguably more complex. As regards whether this has adversely impacted understandability and clarity:</td>
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<td>• Increased length will not necessarily mean increased complexity; indeed longer documents can be clear enough if the drafting is good;</td>
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<td>• In the case of the risk ISAs their length is a challenge to their understandability and clarity for some practitioners. The combination of requirements and application guidance in the one document has in some cases been considered to make for unduly complex documents;</td>
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<td>• The length of an International Standard can also contribute to a time-consuming exercise on some audits or in some firms of running through the standards to know which aspects of the application material are relevant to which audits;</td>
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<td>• It should finally be noted that the length of the International Standards is a particular concern for small and medium-sized practitioners performing relatively simple audits.</td>
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We believe that one of the key areas of improvement to ISAs worth making is the need for clarification of the objective of the standards. This is at two levels: 1. It helps to provide a description of the thinking behind the standard to enhance the understandability of the standard overall; for example, a brief, comprehensive description of the overall audit objective that is to be achieved by the standard and the role the particular standard has in the whole ISA picture would be very helpful;
2. Secondly, as explained at the beginning of this letter, it is essential that individual requirements in standards combine the basic principle or essential procedures with explanation of the audit objectives to be achieved by them. Further, explanation of how the objective is supposed to be met by linking the thinking to the fundamental principles underlying an ISA audit would be equally useful.

As far as style is concerned, we believe that a clear policy should be set out on the standard of written English IAASB intends to achieve in its output. For example, avoidance of long, complex sentences and idiomatic phrases would facilitate translation into the 20 languages of the European Union. Also, the meaning of the words and terms used should be unambiguous and clear.

GT It is our understanding that significant concerns have been expressed with regard to the length and detail provided in recently issued ISAs, particularly the audit risk and fraud standards. We believe that the length of a standard does not necessarily impair its understandable or clarity. Additional detail is sometimes necessary to adequately explain the professional accountant’s obligations and to provide sufficient guidance on the application of the professional requirements in certain circumstances.

As stated previously, the audit risk and fraud standards lay the foundation for all other standards and therefore, are of such importance to the audit risk model that the lack of sufficient detail and guidance would diminish the quality of audits. For example, the fraud standard requires certain inquiries of management; however, it provides specific guidance and examples of more probing questions and detailed discussions with those charged with governance. Such explanatory material aids in the performance of high-quality management inquiries and, as a result of performing such inquiries, the professional accountant may revise audit procedures to address fraud risks. The fraud standard also provides explanatory material with regard to the planning discussions amongst the audit team. Such explanatory material is key to a successful planning discussion and, if absent from the standard, would weaken what is meant to be an essential professional requirement.

H3C The current length and style of IAASB standards should be changed to a more synthetic and clear expression of fundamental principles, as they have been found to be too extensive and impair understanding. Construction of standards should be made in a normative manner, and all which concerns or is relevant and open to interpretation, commentary and expectation, be refrained from inclusion, as it would imply difficulties for the application of standards. Standards should be construed in manner which makes it evidently clear that there would not be the need for interpretation, and that requirements are clearly understood to be mandatory without the need for presumptive interpretation.

ICAEW On the whole, the length and style of these standards has impaired their understandability and clarity, particularly for small practitioners.

The ICAEW set up an ISA Implementation group over a year ago to help practitioners from firms of all sizes deal with the UK move to ISAs. This group developed responses to the risk, fraud and quality control ISAs on behalf of the ICAEW. This group has been consistently supportive to the move to ISAs in the UK, primarily in the interest of audit quality. But our responses to IAASB, particularly on the risk ISAs, have made it clear that whilst we believe that these ISAs will improve
audit quality, they will not do so in proportion to the additional costs to practitioners of implementing them.

The following examples illustrate this view:

- All of the recently issued standards deal with issues for small practitioners, but the number of paragraphs devoted to smaller audits is negligible by comparison with the length of the documents as a whole. Many such paragraphs appear to have been added as an afterthought and these paragraphs are not clearly highlighted; practitioners need to trawl the document for such references. We have consistently argued that the level of guidance in these standards is insufficient for smaller audits (and that IAPS 1005 should not have been withdrawn) whilst at the same time arguing that the standards are too long. Better structuring and greater consideration of the needs of those conducting smaller audits would help. Similar concerns have been raised recently in the Wong and World Bank reports and we are surprised that this issue has not been clearly followed up in these proposals;

- ISA 330 at paragraph 9 contains a very important reference to the auditor’s inability to identify control activities in very small entities, and the need to consider whether it is possible to obtain sufficient appropriate evidence in such circumstances. This important paragraph should be highlighted clearly in the sections of ISA 315 that deal at great length with control activities;

- ISA 315 at paragraphs 41 to 99 deals at length with internal control, internal control components and IT issues. The structure of this section is not transparent and the essential features are easily lost in the level of detail provided, which is unnecessarily lengthy. Seemingly ‘hidden’ in paragraph 91, is a statement to the effect that the audit does not require an understanding of all of the control activities or every relevant assertion. This statement is of great significance to all practitioners, but particularly small practitioners;

- The distinction between understanding the design and implementation of controls, and testing their operational effectiveness is crucial to understanding the risk ISAs. But nowhere are these essentially simple distinctions made loudly and clearly – once again, important features are lost in the detail. A key element of an ICAEW Audit and Assurance Faculty Roadshow on ISAs dealt with this distinction which is not readily apparent;

- In the recent ED on documentation, the wording of paragraph 7 (d) (a bold letter requirement) is obscure at best;

- The wording of paragraph 25 of ISA 330 is unnecessarily convoluted and is just one example of the use of an unnecessary negative structure where a positive one would do (as we have noted before);

- The extensive use of passive constructions does not aid clarity and generally increases length.

Whilst all of the examples above could be ‘fixed’, we believe that they are representative of a wider structural problem.

ICAI

The length and style of recent standards does not necessarily assist the auditor in understanding what is required and quickly identifying procedures that should be
applied. Older standards dealt with principles in a simpler manner and the newer standards are mixing principle and rules based approaches to standards. This results in inconsistent levels of principle, procedures and guidance. This inconsistency leads to difficulties for readers in identifying the principles and requirements that apply in specific circumstances. An example of a standard which leads to this type of confusion is the standard on auditing fair values.

ICANZ  We believe that the length and style of certain of the recently revised ISAs has impaired their understandability and clarity. In addition the nature of the changes required by the new audit risk model may have exacerbated concerns about clarity.

Consider the new audit standards ISA 315 and ISA 330 which in total comprise 195 paragraphs. These revised standards replace ISA 310, ISA 400 and ISA 401 – which comprise a total of 73 paragraphs.

The increased length of the standards is likely to deter some professional accountants from reading and understanding the standards. In addition, we found that the nature of the changes in these standards was difficult to understand and to explain to professional accountants. When changes are introduced it is essential that auditors are able to easily understand the changes and how this will affect their audit methodologies moving forward.

The new standards are longer and more complex documents. There will need to be significant investment in education and training to assist professional accountants with the proper understanding and implementation of these standards and the related guidance.

We believe that the proposed changes to the format of the standards would enable professional accountants to more easily understand the substantive changes and therefore aid effective implementation of new standards.

ICAP  The changing scenario of the corporate world has forced an auditor to carry out audits with much care, because of which an auditor needs to carry out his duties very carefully, so the resultant length of the ISAs is justified to cover relevant issues pertaining to an audit.

Like ISA 315, which is spread over 124 paragraphs (42 pages) is quite lengthy. The audit evidence generated from carrying out the risk assessment procedures given in the ISA is vital to support auditor’s assessment of the risks of material misstatements.

The additional guidance in the ISA 315 in Appendix I on the Understanding the Entity and its Environment followed by Appendix II about Internal Control Components and Appendix III about Conditions and Events That May Indicate Risks of Material Misstatement do add to the length of the ISA but also aid in their understandability and clarity.

Whilst we understand that the length of the recently issued ISAs have assisted in addressing complex issues and have aided their understandability and clarity. However, it is felt that with this sort of substantial increase in length of the standard, continuing with the same style i.e. bold type lettering and continuous paragraph numbering has impaired the clarity of these standards.
For instance, to determine the risk assessment procedures given in ISA 315, the user will have to go from paragraph 7 to 13 initially and then to other paragraph from 100 to 119 as well as the three appendices. These are scattered in standard.

ICPAK

The length and style of the standards have aided their understanding. Some standards have to be explained point by point for them to be clearly understood. Others may not require a lot of details. Examples ISA 240 will certainly require more time to understand as compared to ISA 300. The length and style is driven by the need for clarity and understanding.

IDW

We refer to the general comments on general matters relating to both the proposed Policy Statement and the Consultation Paper. Based upon this discussion, length is an inherent problem because:

- Detailed rules and guidance lead to long standards, which, if applied across different jurisdictions, languages and cultures may drive very different behaviour depending upon the environment in which they are applied
- The more rules and guidance, the greater the risk that inconsistencies among these rules and guidance arise (and the more difficult drafting becomes)
- The more detailed the rules and guidance, the greater the risk that parts of it become inapplicable or ineffective in certain jurisdictions
- More rules and guidance on auditor inputs (procedures to be performed) are, in our view, less efficient and effective than defining auditor outputs (objectives to be achieved)
- Length does impact understandability by overtaxing the attention span of users

Furthermore, the greater the length, the more difficult standards are to translate and to understand by users accustomed to different drafting traditions for standards.

In terms of drafting style we have the following comments, some of which are from our general comments on general matters relating to both the proposed Policy Statement and the Consultation Paper:

- We support the intentions of the proposed Policy Statement to replace some of the present tense text, but our comments on that Statement do indicate our concerns on the proposed implementation of these intentions
- The style used currently is often repetitive
- The principles of legal drafting have not been employed, e.g., the use of definitions and terminology is not performed with enough care using a principles-based approach to ensure understandability across different jurisdictions, languages and cultures, and definitions are often not placed near the beginning of a standard (for example in ISA 500 the term assertion is used in paragraph 8 but not defined until paragraph 17)
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<td></td>
<td>Imprecision in the use of words and concepts is magnified upon translation</td>
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<td>The structure of headings and subheadings does not allow enough depth to allow readers to follow a logical flow of concepts</td>
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<td>Overall, the ISAs contain copious amounts of guidance, explanation, and examples that, while generally useful, are not always applicable in every jurisdiction. Furthermore, IDW translators have remarked that the style of language adopted in the most recent standards is sometimes overly complex and contains unnecessarily long sentences. We consider that, as the standards are designed for application on a worldwide basis, and therefore will have to be translated into numerous languages, it is entirely appropriate and indeed necessary for the IAASB to ensure that the style of English is kept as simple as possible and that the sentences are accordingly shortened. Perhaps greater use of bullet points may reduce the complexity of some sentences.</td>
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<td>IOSCO</td>
<td>As stated earlier in this letter, we believe that recent ISAs have been an improvement over earlier standards. The length of a standard does not necessarily impair the understandability or clarity of a standard. We do believe, however, that there is an important need for the language in standards to be explicit as to requirements. We have had this concern for some time. We believe this concern can be appropriately addressed by setting forth mandatory and presumptive requirements as described in the ED, subject to the other comments we have made in this letter about the proposed language for the requirements.</td>
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<td>JICPA</td>
<td>The length and style of the recently issued ISAs has impaired their understandability and clarity because one sentence consists of long and complex contents.</td>
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<td>KPMG</td>
<td>[Response to Q1-Q4] We believe that the length and style of recently issued standards makes their understandability more difficult, primarily when they are being translated in another language. Generally speaking, we recognize that there is a benefit to structuring International Standards so that the explanatory material either follows or is very close to the professional requirements. This type of structure should enhance the understandability of the Standards because it enables practitioners to read the guidance in context. However, when due to the complexity of the subject matter (for example, fraud or audit risk) it is necessary to provide extensive guidance, we believe that the benefit of having the guidance in context is outweighed by the fact that the professional requirements are obscured by the amount of explanatory material. There is a further disadvantage in jurisdictions that have a convention of incorporating all of the text of a particular standard in the legislation that addresses the responsibility of auditors.</td>
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<td>NIVRA</td>
<td>Although we believe that length and style should not impair the understandability and clarity of the standards, we do believe that due to the length of the recent standards it is especially for the professional accountants a more time-consuming exercise to read and interpret. For that reason we emphasize to ensure consistent application the importance of the clarity of the standards. We can understand that the length of the standards may be of concern for small and medium sized practices. Solutions are needed to assist them with the implementation.</td>
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<td>PAAB</td>
<td>South Africa has adopted the International Engagement Standards with effect from 1 January 2005. While we consider the additional guidance in the Standards to</td>
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be useful to small and medium size practices, there does appear to be a risk that the Standards are becoming too lengthy. We have commented on this aspect in our submissions on recent exposure drafts.

We appreciate that the business environment has become more complex and that auditors now operate within complex conceptual accounting and auditing frameworks, but recommend that the IAASB strive to achieve a balance between issuing Standards that address these changes while ensuring that practitioners are not ‘intimidated’ and overwhelmed by their complexity and volume.

Examples of complex and lengthy Standards include the recently issued Standards on Risk and Fraud.

RR  
I do not think that the length of recent standards has impaired their clarity, but I do think that it has impaired their understandability. The reader of a long document has to keep more in mind and tie together more thoughts than the reader of a short document.

I do not think that the practice of intermingling bold type and plain type sentences and paragraphs impairs clarity, but rather helps it. It allows explanations and clarifications to be sited near the paragraphs they explain rather than having them in separate locations.

However, I believe that the clarity of drafting in the IAASB’s recent standards has suffered because of the perceived need to ensure that certain standards came into effect by the end of this year. This has meant that less time has been available to spend making sure that standards are written in a way that is easy to read.

Q2. If there is concern over the length of the standards, please also explain what is viewed as being problematic – the amount of explanatory guidance provided, the scope of matters addressed or other aspects of the standards. How do respondents consider such matters might be resolved?

AASB-CICA  
We believe that the concerns are caused not only by the amount of guidance but also the complexity of matters addressed. Recent standards reflect increased expectations of practitioners to understand and apply standards on complex topics. While standards must respond to the complexities of our audit environment, we are of the view that well written and concise standards significantly enhance understandability, even of complex matters. We believe that the proposed terminology changes may help alleviate some of the concerns, but we are also of the view that standards should be more carefully reviewed for redundant guidance, and unnecessarily complex phraseology or “technical” terminology.

ACAG  
Concerns about the length of standards may be alleviated if the main principles were succinctly explained at the start of the standard, and other supplementary materials were contained in the appendices.

ACCA  
Currently, ISAs are drafted in such a way as to be directly applicable to large audits carried out by large audit firms. They are, therefore, too complex and too long for efficient application to simpler audits.

The only way to resolve this problem is to rewrite ISAs so that they are directly applicable to simple audits. Further requirements for large and complex audits may
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APB | In its response to IAASB on the audit risk exposure drafts APB identified issues relating to the volume of guidance and the inapplicability of some of the requirements on small audits.

In relation to the volume of guidance the APB observed:

‘The APB has a very significant concern that the proposed ISA “Understanding the entity and its environment and assessing the risks of material misstatement” is not sufficiently clear and concise to allow consistent application by auditors. In the view of the APB the draft contains too much detailed guidance which obscures the key principles and makes the audit risk model appear more complex and less able to be adapted to the particular circumstances of individual audits than should be the case’.

In relation to the inapplicability of some of the requirements on small audits the APB observed:

‘The APB strongly encourages IAASB to promulgate ISAs that are of general applicability to audits of entities of all levels of size and complexity. The quality of audits of listed and other public interest entities is of great importance, but it should not be forgotten that the vast majority of audits completed each year worldwide are of unlisted entities and are undertaken by relatively small firms and sole practitioners: the ISAs need also to be relevant and understandable to them and, accordingly, readily capable of being properly applied to the audits undertaken by them’.

AUASB | As mentioned above, the AUASB supports the retention of the existing structure for ISAs, that is, standards followed by accompanying explanatory material. Therefore, only when it is absolutely necessary to include extensive supplementary explanatory material to the requirements in the standard, should another document (e.g. an IAPS) be issued to complement the standard. On the whole, ISAs (or AUSs) should be ‘stand alone’ documents, capable of comprehension and implementation by an auditor, without needing to refer to accompanying pronouncements.

When auditing standards are to be developed and issued, and compliance therewith is within a legally enforceable environment, the inclusion of extensive explanatory guidance or commentary in the standards can potentially create uncertainty about auditors’ compliance obligations. This is particularly a problem where explanatory material and guidance accompanying ‘black letter’ standards implicitly incorporate and/or impose responsibilities or matters that auditors might or ought to take into consideration. We acknowledge this problem is likely to be significantly reduced by discarding the use of the present tense in auditing standards.

CIPFA | There is a considerable amount of material especially in the recently revised ISAs which is primarily educational in nature. While this material may well be useful, it does not need to be in a standard with which auditors are required to comply. It is also likely that such material will become out of date relatively quickly as practice develops. We would prefer such material to be included in separate Best Practice Guidance, which would not have mandatory status.
CNCC-CSOE In their response to the audit risk model ED, the French Institutes expressed their concerns over the length of the standards as follows:

“The length of the proposed standards appears to be partly due to the many repetitions they contain, which sometimes state the obvious. It makes the plan and structure of the standards difficult to follow because the text of the standards does not flow well. In certain cases, it leads to certain statements which appear to be simple common sense and which in the French cultural context, for example, will be counterproductive.”

They consider that these comments remain valid and that the issue of excessive length has not been resolved in the standards issued or revised after the audit risk model.

The difficulties and concerns over the length of the standards are caused by:

• The increased risk for the auditor of being sued for not having applied to the letter the excessively detailed guidance in the standard.
• The risk of the progressive disappearance of the use of professional judgement
• The increased risk of having to perform what may be considered to be irrelevant work in order to meet the requirements of the standard and, perhaps omitting relevant procedures simply because they may not have been specifically included in the standard.

DnR We think that the length of the standards is a problem. The structure of the standards need be improved so that the professional requirements are presented clearly. The present guidance tends to be unstructured and repetitive. Large parts of the explanatory guidance should be removed from the standards and presented in a separate document. The guidance document could have a less or none authoritative status compared to the standards. In the standards, guidance to explain the mandatory requirements should be retained. In the less authoritative guidance, examples and implementation guidance could be given. See our answers to questions 5 below.

DT There are two fundamental issues about the length of the standards:

• The level of detail and specificity of the requirements
• The amount of explanatory guidance and its level of detail

With respect to the level of detail and specificity of the requirements different cultures have significantly different views. This is why agreeing upon the principles for the determination of the requirements is essential. Our recommendations included some thoughts on these principles. We believe the level of specificity and detail exemplified in the reworked ISA 315 is acceptable.

With respect to the amount and level of detail of explanatory guidance, the restructuring should help address concerns but it is important for the requirements to
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have sufficient context to understand them.

Some people question the need for greater specificity and, therefore, numbers of requirements for audits of smaller entities. When requirements clearly are necessary for listed entities only, the standards should reflect that.

In addition the legislation in certain countries provides legal backing to the standards, by incorporating them into national law. The more explanatory text is inserted in the ISAs which are not by nature suitable for inclusion in a legal instrument, the more difficult it will be to converge national and international standards.

EY  The ‘Risk ISAs’ (ISA 315 Understanding the entity and its environment and assessing the risks of material misstatement and ISA 330 The auditor’s procedures in response to assessed risks) are, we believe, the main examples of recently issued standards where length and complexity are of concern. These standards differ from previous ISAs in two key areas, in terms of the way they are drafted.

First, ISA 315, for example, contains a large number of different, though related, topics. This makes it harder to find the information related to any given topic: although the headings and the bold text are a guide, there is always a concern that some aspect of the topic being researched might be elsewhere within the standard.

Second, given both its absolute length, and the length of many of the component paragraphs, it is difficult to be sure that the professional accountant has considered all aspects of one of the topics: the volume of guidance makes it difficult to assimilate the content of individual paragraphs.

Possible solutions might include:

- Splitting very long, complex standards into a number of more specialized standards which can be arranged together within the framework of standards. For example, in ISA 315, topics such as internal control could be dealt with in a separate standard. The requirements relating to understanding the entity and those relating to assessing risks could also be separated into two standards.

- Challenging the length of the component paragraphs of the standard – splitting paragraphs makes picking out the core idea easier and therefore helps understanding. In particular, any paragraph containing a requirement (ie bold text) should usually stand alone, with guidance following in subsequent paragraphs.

- Challenging the guidance provided. While a comprehensive standard is helpful in many respects, and we would not advocate removing the guidance which helps clarify the standard, the guidance should not be a textbook of auditing or a comprehensive methodology.

- Guidance on applying the standard on a smaller engagement. The standards, especially the ‘Risk ISAs’, as drafted, are more easily applied to larger engagements. Guidance for application to smaller engagements, especially in terms of extent of documentation, would be helpful.
FAR
The overarching problematic area regards how a single ISA is introduced. Please see the section “Improving overview, understanding and user friendliness of the ISAs” in the Introductory comment as well as the answer to Policy Statement-question 3 for further details on that and our improvement proposals.

FEE
We refer to our comments on the length of the International Standards already stated in our main comment on the Proposed Consultation Paper on “determining the outcome of the proposal”, “think small first” and to our comments included in question 1 of the Proposed Consultation Paper.

Standard setting should be based on the “think small first” principle. The basic requirements common to all engagements should be included in the standards, which would in our opinion result in shorter standards which clearly indicate which basic procedures and actions the professional accountant is expected to perform. International Standards should be accompanied, where necessary, by practice statements or application notes which are specific for a certain sector like small and medium-sized entities or the public sector. See also our responses to Question 13 on the Proposed Consultation Paper.

GT
… we are less concerned about the length of the standards than their clarity and understandability.

H3C
We are considerably concerned over the amount of explanatory guidance provided in the written IAASB standards which serves merely to cloud the effect of mandatory requirements and provides the professional with the possibility of open interpretation. Standards should be further developed and construed in a manner which makes it evidently clear of requirements, reducing or diminishing the need for interpretation, so as to be clearly understood to be mandatory even with the alternative procedures

ICAEW
There are many causes of over-complexity in the substance and structure of auditing standards; excessive length is one of them. Whilst in theory, length should not of itself result in complexity, in practice it does and there is always a cost associated with length. Complexity, structural or otherwise, is now perceived as a real bar to efficiency in many areas. There is increasing pressure for businesses to reduce complexity, or rather to manage essential complexities such that they do not frustrate the day to day operational activities of users. The obvious parallel is with complex technologies. Practitioners have difficulties in finding their way around long and complex auditing standards in the same way that they have difficulty in finding their way around complex software. Even if recently issued standards are not ‘hard to understand’, at least on the second or third read, putting the requirements into practice is hard for practitioners with limited resources simply because for almost every additional requirement, there is an element of uncertainty in interpretation which can always be challenged by regulators. Long, complex and prescriptive auditing standards are less likely to be read, understood or properly implemented than shorter, objectives-oriented standards.

The key to efficiency is not to remove the complexity, which is probably not possible, but to structure complexity in a manner that is ‘user friendly’. Recently-issued auditing standards are not user friendly; we believe that they should be, and that they can be.

We believe that one major cause of complexity in auditing standards is a lack of a proper understanding of the nature and merits of objectives-oriented standards,
the wholly erroneous belief that such standards are lightweight and impossible to enforce and the equally erroneous belief that longer more prescriptive standards are easier to enforce and result in better quality audits. The FASB has described objectives-oriented standards as the same as principles-based standards, in order to avoid confusion with principles-only standards. Whilst existing IAASB standards certainly do contain objectives, they also mandate many detailed procedures and contain much non-essential guidance; we do not believe this is compatible with objectives-oriented standards. The proposals as they stand represent a further move towards rules-based standards and will result in a much greater number of professional requirements than at present. We believe that much greater consideration should be given to permitting auditors to consider the application of a procedure, rather than effectively mandating it by the use of the terms ‘shall’ or ‘should’.

Objectives-oriented standards set out the objectives that the auditor must achieve in the performance of an audit, provide essential guidance on how those objectives can be achieved and mandate the performance of specific procedures only where absolutely necessary. Such standards do not contain educational or background material which, whilst important, does not belong in auditing standards. There is a great deal of detailed material in the recently revised ISAs which is educational in nature, useful to some but not to others, which does not constitute objectives, essential guidance or absolutely necessary specific procedures. We believe that it is necessary to create a new type of IAASB document for this type of educational material, which auditors should be encouraged to consider, but no more than that.

We are aware that regulators have a positive approach to longer, more prescriptive standards because they believe that they have difficulties in monitoring and enforcement without the back-up of detailed rules. But we strongly believe that an ever-increasing armoury of detailed rules provides only short term answers to transient problems and is ultimately futile in the greater battle against manipulative and fraudulent financial reporting. Effective monitoring and enforcement in the public interest require a proper understanding of how objectives-oriented standards work, a belief in the merits of such standards and the confidence and experience to uphold those standards when they are attacked on points of detail. We appreciate that this sometimes requires quite a significant change in mindset, particularly in an environment where a legalistic and compliance approach to standard-setting, monitoring and enforcement has been the status quo for many years. In our view, whilst this change of mindset may take some time to achieve, an objectives-oriented approach to standard-setting, monitoring and enforcement is the only effective way to protect the public interest in the long term.

UK standard-setters have taken this type of approach to standard-setting for many years. This approach is rapidly taking root elsewhere in the EU. We note the continuing work by the FASB and the SEC on the development of objective-oriented standards in accounting standard-setting and believe that the clear benefits of this approach should also be applied to auditing standard-setting.

…there is a great deal of detailed material in the recently revised ISAs which is educational in nature. The descriptive material on IT controls in ISA 315 is one such example. Whilst the material may be helpful to some, we do not believe that it is helpful to have such material in a document with which auditors are required to comply (or are required to consider). The inclusion of extended discussions of such detailed technical matters in standards, or even Practice Statements, means that there is a risk that more important messages will be obscured. It is also difficult to see how regulators will monitor ‘compliance’ with such discursive material and it is inevitable that such material will become out of date within a relatively short time period.
The matter might be resolved by considering a new category of document produced by IAASB; guidance for those auditors who lack technical expertise, representing best practice, but which would not form part of the corpus of material with which auditors are required to comply (or are required to consider).

The restructuring options outlined in Question 6 will be of little value if there is no overall reduction in the length of material with which auditors are required to comply (or are required to consider).

ICAI

It is problematic for users to find very detailed requirements on one issue (e.g. audit of fair values) which is also addressed in general standards and not find similar levels of details related to others (e.g. audit of leases). This inconsistency leads to confusion and difficulty in interpreting and applying the standards. The matters may be resolved by reducing the standards to the key principles, general procedures and guidance on applying the procedures. The specific examples (e.g. auditing fair values) should be addressed in practice guides on how to apply the required procedures in specific situations and not incorporating such detail into standards. This suggestion is consistent with Restructuring Option A paragraph 19 of the consultation paper.

ICANZ

The main issues regarding the length of the new standards and the inclusion of explanatory guidance are: (i) determining which provisions of a standard must be complied with, and which provisions are intended to provide guidance; and (ii) the nature and extent of certain changes, as noted above.

Where there is uncertainty over the objective of a standard and which provisions must be complied with, implementation of the standard and achievement of the overall aim of improving audit quality will be undermined.

In addition, the more extensive the changes to a standard the higher the costs to professional accountants in terms of investing time to understand the changes and to amend audit methodologies. The IAASB’s communication and education strategy is therefore vital to the IAASB achieving its overall objectives.

ICAP

As far as concern over the length of the standard is expressed, the problem area appears to be in ascertaining the scopes of the matters addressed. A combination of bold and plain text in ISA 315 over 124 paragraphs serially numbered creates confusion about the actual scope of the matter addressed.

For instance, to determine the risk assessment procedures given in the standard, the user will have to go from paragraph 7 to 13 initially and then to other paragraph from 100 to 119 as well as the three appendices. These are scattered in standard.

The contents of the standards should be segregated section wise to introduction, requirement explanation with Appendices, procedures and documentation. This would add to the clarity and understanding.

IDW

Please refer to our response to question 1.

On the whole, it is the amount of explanatory guidance that appears to cause most of the length and hence impairs the understandability of the standards. However, there are a number of cases (e.g., ISA 315) where the scope of the standard was too broad for the applied depth, so that the contents of that standard should have
been distributed among two or more standards. We will address the issue of explanatory guidance first.

In line with the views we had expressed in our answer to question 2 in the proposed Policy Statement, the ISAs should contain the objectives that an auditor must achieve, the requirements and presumptions that an auditor applies to achieve those objectives, together with application material (definitions, descriptions and other explanations) required by the auditor to be able to understand and achieve the objectives and to understand and apply the requirements and presumptions. Only those definitions, descriptions and other explanations essential for the reader to understand the ISA should be included in an ISA. To this effect an ISA should be a stand-alone document.

However, all additional considerations a professional accountant should be aware of and consider (guidance, good practices and examples) should be relocated to an appropriate IAPS. We agree that the IAASB should continue to provide the current level of guidance; however as noted above not every item of guidance or every example will necessarily be applicable in every country or jurisdiction or even in every audit circumstance. Relocating guidance, good practices and examples to an IAPS with a differing level of authority from ISA would have the additional advantage that IFAC member bodies or other standard setters would be able to provide guidance tailored to circumstances more commonly encountered in their countries or jurisdictions.

In our view, relocating guidance, good practices and examples to IAPSs would lead to significant reduction in the length of the ISAs and thereby improve their conciseness and hence clarity.

From a standard-scope perspective, it is imperative that the IAASB reconsider the current structure of the ISAs and the fact that no overall audit process standard exists. Such an overarching standard would allow standards (e.g., ISA 315) addressing further obligations to be shortened to digestible lengths.

IOSCO

As stated elsewhere in this letter, we do not believe the length of standards is a matter that should affect the understandability of standards. We believe that any increasing requirements for auditors are a reflection of the need to strengthen the quality of audits so that, wherever possible, they better meet the legitimate expectations of the public. We urge the IAASB to focus on clearly explaining the content of each standard, including the objectives, principles, and application guidance involved.

IRE

In the view of the IRE, the length itself of the ISAs doesn’t impair the understandability of the ISAs. On the contrary, the new audit risk model is now clearly presented with lots of explanatory material, which contributes to a better understanding of the principles regarding the audit strategy and its link to risks of material misstatement due to error or fraud, and to the detection risk. However, the IRE believes that the style of the standard might have an impact on the clarity of the standards, e.g.:

- the use of the present tense (what is the difference compared to a ‘shall’, or a ‘should’ requirement?) ;

- the structure of the guidance or the ‘application material’ (the application material could be better structured, with the objective of better reflecting the guidance
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needed by an auditor of a smaller or less complex entity, a public sector entity, a listed entity, or an entity in general); the fact that the standards are lengthy unfortunately contributes to a very time-consuming exercise of running through the standards to know which aspects of the application material are relevant to which entities.

The IRE believes that clarity will be served if the standards are restructured following option A. Although the ‘standards’ section is the same for every audit of financial statements (‘an audit is an audit’), the application material can be more clearly redirected towards small practitioners (related paragraphs already available in the audit risk model, e.g. paragraphs 34, 40, 45, 57, 66, 71, 73 and 79 of ISA-315, together with some additional material in the appendix 2 of ISA-315), towards public sector aspects (in some ISAs a public sector perspective already exists (cf. IFAC, Annual Report, 1994, p.3)). Moreover, the cooperation of the IAASB with INTOSAI will facilitate the development of the needed public sector guidance.

In the view of the IRE, the application material can be re-allocated to a ‘general guidance’ section, a specific ‘small practitioners perspective’ and a specific ‘public sector perspective’. Moreover, this way of restructuring may also facilitate the cooperation between IFAC’s Public Sector Committee, IAASB and INTOSAI, as well as between IFAC’s different task forces (e.g. SME Task Force) and the IAASB;

Such a restructuring will by no means weaken the audit requirements, or reduce the applicability of the ISAs: it will only strengthen them, provided that the status of the IAPSSs is clarified.

The longer standard resulted from unnecessary explanatory material, appendices and example, and a duplication of explanatory material among the standards, and also appendices. We believe that the IAASB should eliminate unnecessary or duplicated explanatory material, appendices and example.

As stated in paragraph 1, not the length of the standards but the clarity is of importance. As we have said before the standards should only contain professional requirements relevant and applicable to every audit. Explanatory material separated from the standard like is done in exhibit 2 in the illustrative examples is what we prefer and what we believe will support the individual professional accountant to find his way in the standards.

While the additional guidance is considered useful, especially to small and medium size practitioners, the increased requirements may become problematic for the same firms.

The length of a standard is linked to the detail that the IAASB wishes it to contain: more detail means a longer standard. The standards that introduced the revised audit risk model had to be longer than previous standards because they were explaining concepts that would be brand new to many auditors. This required a fairly detailed and lengthy explanation. I do not think that the other recent standards are excessively long bearing in mind the detail they contain.

Q3. Has the degree of detail provided in the standards aided or hindered their adoption or implementation? Please provide specific details of the circumstances that have arisen as a result of the style in which ISAs are written.
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<tr>
<td>AASB-CICA</td>
<td>As stated above for question 1, we have received requests to increase the implementation period for new standards. This arose specifically with respect to the quality control standard. We believe that standards generally require a longer implementation period when they are more difficult to integrate into existing audit approaches and into training programs.</td>
</tr>
<tr>
<td>ACAG</td>
<td>To our knowledge the level of detail provided in the standards has not hindered their adoption or implementation. Recent changes, such as the increase in explanatory material within the IAASB’s audit risk standard, led to revisions of the relevant Australian Auditing Standards. This was useful in the early adoption of the principles in these revised standards.</td>
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<tr>
<td>ACCA</td>
<td>As indicated in our answer to Question 2 above, detailed coverage of material that is only relevant to large audits makes ISAs less usable for the majority of audits.</td>
</tr>
<tr>
<td>APB</td>
<td>APB has made the strategic decision to take advantage of the recent updates to auditing standards undertaken by IAASB. APB has accomplished this by issuing ISAs (UK and Ireland) which incorporate the ISAs. This approach was chosen at a time when APB did not anticipate that the number of professional requirements would increase significantly as a result of the ‘clarity project’.</td>
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<tr>
<td>AUASB</td>
<td>The AUASB believes that increasing the degree of detail in standards hinders their adoption and implementation, especially by practitioners from smaller practices. Decisive changes in audit practice could be obstructed if auditors cannot readily identify and implement changes arising from newly issued or revised standards. Going forward, in Australia this latter aspect will be important, given auditing standards will be legally enforceable.</td>
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<tr>
<td>Basel</td>
<td>We cannot provide examples where the detail provided in the standards has hindered their application. We consider the explanatory guidance as helpful in clarifying the scope and application of the Standards. We believe that the arguments in support for the present style are more convincing (paragraph 15) than the concerns (paragraph 14).</td>
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<tr>
<td>CEBS</td>
<td>We are not aware that the degree of detail provided in the standards has hindered their adoption. In many of our jurisdictions, the adoption of international standards has been implemented by a reference to them in local legislation, rather than including the whole standard in the legislation.</td>
</tr>
<tr>
<td>CNCC-CSOE</td>
<td>See above, the excessive length is due essentially to the excessive level of details. It endangers convergence in France.</td>
</tr>
<tr>
<td>DnR</td>
<td>Practitioners have raised concerns that the standards are not easily understandable. The length and detail leads to difficulties in separating requirements from guidance.</td>
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<tr>
<td>DT</td>
<td>As indicated in the Wong report, the detail and complexity of recent standards has caused implementation difficulties in some jurisdictions. However the IAASB should not sacrifice what is needed to meet the objectives of high quality standards because their implementation is difficult. It should be no surprise that</td>
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|-substantive change is difficult.

**EC**
The Commission has not yet adopted or implemented ISAs, but has already gained experience in adopting IAS /IFRS in the past. The more rules based and prescriptive the standards – as opposed to principles based – the more lengthy the adoption, and the more difficult the convergence or equivalence assessment exercises are.

**EY**
We are still in the process of implementing the ‘Risk ISAs’, which are not yet effective. Consequently, we are not in a position to answer this question.

**FAR**
Please see the answers to questions 1 and 2 above. Regarding the number of words, we would like to refer to Agenda Item 11-A in the New Orleans background papers: The proposed ISA 701 Qualifications to the Opinion in the Independent Auditor’s Report, an ISA which deals with a complex issue, is concise and to the point.

**FEE**
We refer to our responses to Question 2 of the Proposed Consultation Paper and to our main comments on the Proposed Policy Statement.

**GT**
Despite the issue related to the use of the present tense, we believe that the detail provided in the standards has aided with their adoption and implementation. Such detail clarifies the professional requirements and the professional accountant’s obligations, where such requirements and obligations are not readily determinable. It also enhances the professional accountant’s ability to make better professional judgments by providing clarifying guidance and examples.

**H3C**
The current length and style of IAASB standards are far too detailed and impair clear understanding for the professional. Too much detail in standards would hinder its implementation for the professional in leaving room for interpretation.

**ICAEW**
See answers to Questions 1 and 2.

**ICAI**
The level of detail generally has not hindered or aided adoption of standards. The level of detail has in some circumstances has hindered implementation and in other circumstances assisted in the implementation. The level of detail assists some users and does not assist other users.

**ICANZ**
We believe that the degree of detail provided in the standards has to a certain extent hindered the adoption of ISAs or at least made adoption more difficult for the reasons outlined above, especially for jurisdictions with established standard setting functions. However, we believe providing guidance, outside of the standards themselves, is likely to aid implementation by assisting professional accountants to understand the reasons for the changes and explaining the objectives of the various requirements.

We agree with the format proposed in Exhibit 2 which we believe: provides national standard setters with greater scope to incorporate national requirements and guidance within the ISA framework; is more concise and user-friendly enabling users of the standards to focus on the principles; and lends itself to further
innovations, such as a web-based applications, that will assist the widespread adoption and use of international standards.

ICAP
The degree of detail provided in the standards aided their adoption but difficulties arise in implementation of the same particularly in case of small and medium practices who are not well equipped to fully implement risk based audit procedures specially where the clients’ systems are not sophisticated enough to support and enable the auditor to obtain sufficient appropriate audit evidence from the risk based procedures.

ICPAK
The degree of detail has aided ISA's adoption and implementation in some standards but has hindered adoption of others.

IDW
In our view, the degree of detail in the new standards has hindered their adoption or implementation: please refer to our response to questions 1 and 2 for further details.

IOSCO
We have already noted our belief that the degree of detail in recent ISAs represents an improvement over earlier standards. We do not see why detail should be a hindrance in adoption or implementation, when the detail (a) communicates or explains important requirements for auditors and (b) is well-written so as to be clearly understandable by those who use the standards. More information to provide guidance to auditors is not a negative outcome.

JICPA
Because of the explanatory material and appendices that do not always enhance understandability, we propose a restructuring of ISAs and more flexibility for implementation of the explanatory material and appendices in national standards.

NIVRA
No, the degree of detail provided in the standards did not hinder the implementation, but we are not sure up to what level our professional accountants really understand and are able to interpret fully the standards.

RR
This is a difficult question to consider in part because “adoption” can mean different things to different people. A lack of detail might mean that people adopt the standards in wholly inconsistent ways. I believe the degree of detail aids consistent application but I can see how that detail might make adoption harder.

Q4. Are there other options for improvement in standards that should be considered by the IAASB?

We have not identified other options for improvement in standards for the IAASB to consider.

ACAG
Another option that may be considered is that which is currently used by the International Accounting Standards Board. For more complex standards, the International Accounting Standards Board issues ‘implementation guidance’ which includes a range of examples, etc. to supplement that which is written in the standard. This approach, however, relies upon the reader to be aware of the existence and authoritative status of the ‘implementation guidance’ document.

APB
APB favours an approach based on: (i) identifying the fundamental principles of auditing, (ii) separating out the standards from the supporting implementation
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- guidance (preferably moving the implementation guidance to IAPSSs), and (iii) IAASB withdrawing most of the existing IAPSSs.

**AUASB**

The AUASB supports the IAASB’s continued use of ‘plain English’ experts in drafting ISASs. Furthermore, consideration should be given to making greater use of other formats and methods to communicate requirements in an ISA. For example, the AUASB encourages the IAASB to use:

- bullet points—as a way of breaking down the complexity of long sentences
- Tables, flowcharts and diagrams—to illustrate various requirements or explanatory material, and
- different styles and fonts, formats or layouts—to differentiate between various requirements or explanatory material.

When, and only when, substantial guidance in addition to explanatory commentary accompanying standards is required, consideration could be given to issuing an implementation guide for a new ISA.

**Basel**

The Board could consider following the approach of the IASB in their latest IFRSs: presenting an introduction to the standard, application guidance and the basis for conclusions. This could aid readability, clarity and application of the standards. The key principles, the explanatory guidance and the framing of the issues could be separately explored.

**CEBS**

The IAASB could consider following the approach of the IASB in their latest IFRSs and presenting an introduction to the standard, the standard, the application guidance and the basis for conclusions. This could aid readability, clarity and application as the objective of the ISA, its key principles, the explanatory guidance and the framing of the issues could be separately explored.

**CNCC-CSOE**

The French Institutes consider that significant improvement could be achieved by:

- Identifying the fundamental principles of auditing, which would serve as a basis for the “shall” requirements
- Separating the professional requirements from the explanatory material as proposed in the consultation paper
- Using cross-references from one ISA to another instead of developing ISASs which “retell the entire story”.

**CPA Aus**

CPA Australia would like to recommend the use of a plain English consultant involved at the exposure draft phase, as leaving this consultation until after the exposure draft may limit the effectiveness of this process.

**DnR**

As stated above, we would welcome practical guidance, e.g. relating to different industries, a supplement to the ISAs. Such guidance should not be authoritative. The developing of su guidance might be outsourced from the IAASB.
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<tr>
<td>DT</td>
<td>See our recommendations. In addition, establishing clear linkages between the different levels and cross-references from one ISA to another instead of having each ISA “retell the entire story” will reduce repetition.</td>
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<tr>
<td>EC</td>
<td>Yes. Along with the EU “better regulation” project, the Commission supports principles based standards, the avoidance of duplicated text, and short sentences.</td>
</tr>
<tr>
<td>EY</td>
<td>No additional comments, but see also our responses to the Policy Statement regarding use of ‘should’ and bold text.</td>
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<tr>
<td>FAR</td>
<td>To facilitate understanding and translation, we urge IAASB to be consistent when giving common English words an explicit and specific use and meaning for the purpose of the ISAs and, thereafter, when using those terms in the ISAs. A recent example to illustrate what we mean is the use of the word “representation” in the Assurance Framework. By issuing ISA 580, IAASB, we believe, has given “representation” an explicit and specific use and meaning for the purpose of the ISAs (i.e. audit evidence obtained from management as described in that standard). However, while the purpose of obtaining “representation” in paragraphs 40 and 44 of the Framework to us seems to be that of ISA 580, we believe that there is a different purpose of obtaining “representation” according to paragraphs 10 and 26, all considering the respective context of the paragraphs. If we have a point here, thus such a key ISA-term as “representation” would be used by IAASB in the same pronunciation having a different meaning which would be very unfortunate and confusing.</td>
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<tr>
<td>FEE</td>
<td>We recommend to issue International Standards based on the policy that clear words and terms are used, with short sentences, avoiding idiomatic phrases and unnecessarily complex sentences or paragraphs. As already indicated, such policy would also facilitate translation into the 20 languages of the European Union.</td>
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<tr>
<td>GT</td>
<td>We do not believe that there are any other options other than those addressed by the Proposed Policy Statement and Consultation Paper.</td>
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<td>H3C</td>
<td>Construction of standards should be made in a normative manner, and all which concerns or is relevant and open to interpretation, commentary and expectation, be refrained from inclusion, as it would imply difficulties for the application of standards. Standards should be construed in manner which makes it evidently clear that there is no need for presumptive interpretation, and that requirements are clearly understood to be mandatory. Commentaries should not be written into as it would leave too many doors open to interpretation by the professional. They should be construed separately from the standards. It is our opinion that standards could be improved through the identification of the fundamental principles of auditing, which could then serve as a basis for the application of the “shall” requirements.</td>
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<tr>
<td>ICAEW</td>
<td>See answer to Question 2.</td>
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<tr>
<td>ICAI</td>
<td>See answer to Question 2.</td>
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<td>ICANZ</td>
<td>Development of a basis for conclusions that explains the IAASB rationale for a new standard or for changes to an existing standard would help auditors to understand new standards or new requirements. We note that the IAASB has decided to prepare a basis for conclusions where necessary. We believe that a basis for conclusions is fundamental to understanding the objective of a standard and the rationale for the various requirements and should be prepared as a matter of course. This is important to facilitate adoption and to encourage acceptance of the standards.</td>
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<tr>
<td>ICAP</td>
<td>The style in which ISAs are currently written uses bold and plain text and continuous paragraph number. The standard does not appear to be structured in a manner so as to provide the main headings that would determine the scope of matters followed by audit procedures, explanations and appendices, documentation and use of audit evidence for additional procedures and planning. Other options for improvement in standards would be to classify the contents under uniform headings followed by sub-headings.</td>
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<tr>
<td>IDW</td>
<td>As noted in our previous comments in this letter, we believe that standards should move to defining auditor output (objectives to be achieved) instead of trying to detail auditor input (procedures to be applied), for there are often a number of alternative procedures by which an objective can be adequately achieved.</td>
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<tr>
<td>IOSCO</td>
<td>The proposed solution in the Policy ED regarding new language to specify mandatory and presumptive requirements has the potential to make a major improvement in both clarity and quality of ISAs, and should be moved forward as quickly as possible. This work should not be delayed while studies and debates take place about other ways that standards could be enhanced. Standards should continuously be improved. As we have noted, high quality standards need to be based on a consistent conceptual framework and should contain introductory statements of objectives and principles, along with sufficient detail and implementation guidance to make the application of the standard clear. Settling on the best way to highlight objectives and principles in standards has evolved over time in relation to accounting standards, and it is likely to evolve over time in relation to auditing standards. Over time the IAASB may need to explore the advantages and disadvantages of a variety of approaches such as those used by other auditing standards setters and that used by the IASB in their latest IFRSs, i.e., presenting an introduction to the standard, the standard, the application guidance and the basis for conclusions. Such an analysis might identify approaches that could further enhance readability, clarity and application of ISAs, but we do not believe any such work should be allowed to delay achievement of the immediate and needed improvement in the clarity of ISAs that would result from prompt implementation of the changes proposed in the Exposure Draft. We urge that the changes proposed in the Exposure Draft be implemented as quickly as possible.</td>
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<tr>
<td>IRE</td>
<td>The IRE would also like to suggest the IAASB to use shorter sentences in drafting the ISAs, thereby assisting the (principal) translators to translate the ISAs more faithfully.</td>
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</table>
Moreover, the IAASB may wish to include a ‘basis of conclusions’, next to the ‘standards’ and ‘application material’ section of an ISA, thereby following the example of the IASB and the PCAOB. This will also strengthen the ‘standards’ section, as the IAASB will be given another possibility (next to the ‘application material’) to explain to the public (and to the auditors in particular) why (or why not) specific requirements within the ISA have (not) been withheld. In this respect, we kindly refer to our comment letter of October 4, 2004 regarding the IAASB's recent Exposure Draft Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services-IAASB Due Process and Working Procedures.

ACCA

Potentially, this question is very wide. IAASB has consulted separately in relation to issues such as governance and due process and so we confine our answer to the production of documents embodying standards for auditors.

As explained above, we believe that ISAs should be rewritten on a ‘think small first’ basis. We also consider that it is necessary to adopt a principles-based approach to the development of ISAs. We would encourage IAASB to carry out a separate consultation on this, as it will have far-reaching and significant consequences.

ACCA has previously called for holistic updating of ISAs. We believe that the current, project-based, piecemeal development of new and revised standards results in unacceptable inconsistencies in ISAs. The prospect of a complete change to ISAs, either resulting from the matters dealt with in the Proposed Policy Statement, or a wider consideration of necessary changes, presents an ideal opportunity for IAASB to change its methods of working. There would be considerable advantages for auditors and the users of their work if ISAs were updated no more than annually.

NIVRA

No additional comments.

PwC

As noted in our response to the IFAC Survey on Challenges and Successes in Implementing International Standards in June 2004, recent ISAs have been longer and more complex, and this has made it more challenging to implement them in our methodology and to document our compliance with them. The Audit Risk ISAs, as an example, are centrally important to professional guidance and required a more complex mapping exercise to ensure our methodology was in compliance with the requirements of the standards. That being said, we have not encountered any insurmountable difficulties in implementing them.

As explained more fully in our covering letter, however, we believe that there would be considerable merit in IAASB reconsidering the overall structure and approach to the ISAs, including taking the time to develop a concept-based framework for the ISAs and a robust structure that can guide the drafting of individual standards in future. Under our proposals, we envisage that the ISAs addressing specific requirements would be considerably shorter as they would be supported by a well articulated conceptual framework. Thus, the guidance related to specific requirements could be left to a minimum, with illustrative examples moved to implementation guidance in Practice Statements.
The length and complexity of auditing standards poses particular challenges when applying them to audits of smaller, non-complex entities. This segment of the audit population is considerable. For example, when the European Union adopts the ISAs for statutory audits in Europe, the ISAs will not only apply to the audits of the approximately 7,000 listed companies – it will also apply to the audits of approximately two million unlisted companies, most of which have less complex operations. As ISAs become longer and more complex and documentation requirements more onerous, the burden on audits of smaller entities increases disproportionately and the cost/benefit needs to be challenged.

We would welcome an initiative to consider the burden of auditing standards on the audits of small and medium enterprises (SMEs). We understand that the IFAC Board's plans an international forum to address SME issues early in 2005. We fully support this initiative. Whilst the audit process described in the ISAs is equally applicable to listed entities, small and medium enterprises and not-for-profit organizations, we believe that consideration needs to be given to how guidance for the audits of small and medium enterprises is best provided. One of the advantages of our proposed approach is that it would facilitate this as it would enable IAASB to establish different requirements for documentation and communications, for example, that are responsive to the specific circumstances of this segment whilst retaining the common conceptual framework underpinning all audits.

RR I think the IAASB needs to be clear about its intended audience. Sometimes it seems to be writing for auditors, sometimes it seems to be writing for regulators and sometimes it seems to be writing for users of the financial statements. I think the IAASB should decide who its primary audience is and should then address its standards to that audience. If necessary it should say in the preface that, for example, its standards are written for professional accountants performing assurance engagements and that although other readers might find them useful in understanding what an assurance engagements entails the standards do not on their own provide sufficient information to understand the role and responsibilities of professional accountants performing assurance engagements.

Restructuring Options

Q5. Do respondents believe that the IAASB should continue with its present style of ISAs, or is there a need for ISAs to be restructured? What are the reasons that are persuasive in reaching your view?

AASB-CICA We believe that the issue of the clarity of the standards is much greater than other issues relating to their length and structure. As previously stated, the changes proposed in the ED to improve the clarity of standards may assist in addressing some of those other issues.

Canada does not face, to the same extent, the concerns laid out in paragraph 14 of the Consultation Paper. Firstly, Canadian standards are not incorporated directly into Canadian law. Secondly, while Canada translates adopted ISAs into French, the AASB has generally had little difficulty in adopting ISAs virtually unchanged into Canadian standards. Thirdly, while in common with many countries the majority of audits are of small- or medium-sized private companies and practitioners providing services to these companies are concerned about standards overload, we believe that this is a broad and complex issue that will not be resolved solely by restructuring standards. Nevertheless, we believe there is a need for ISAs to be restructured for the previously stated reasons.
In considering the options proposed in the Consultation Paper, Canadian respondents did have some concerns over separating professional requirements and explanatory material, either by way of two sections within one document or two separate documents. This is because existing standards have not been written with the specific intention of setting out a logical flow of professional requirements, and clearly distinguishing this from explanatory material. However, we believe that such concerns can be overcome. Firstly, we believe that the IAASB could ensure in restructuring existing sections, and in developing new standards, that there is a logical flow to the professional requirements and that these are self-standing. Additionally, the use of electronic versions of standards allows for means of more closely linking professional requirements and the application guidance than is obtained when using the paper version of material.

On balance therefore, we support the direction being taken by the IAASB to restructure the ISAs. We do so with the proviso that significant efforts will be required when revising the structure of existing standards to improve the understandability of the text.

ACAG  We believe the current approach whereby the main principles and explanatory materials are integrated and presented together in ISAs is an acceptable approach.

ACCA  For the reasons referred to above, we are in favour of a fundamental restructuring of ISAs. In the Consultation Paper, Questions 5 and 6 address a limited restructuring of existing material. In this context, on the grounds of ease of use, we favour retaining a format in which professional requirements and guidance are kept together, with the former identified by bold lettering.

APB  APB believes there would be benefit in restructuring the ISAs as part of a wider ‘clarity’ initiative.

AUASB  As mentioned, the AUASB’s preference is to retain the existing format and structure of the standards, that is, retention of the present layout in which both standards and accompanying guidance or commentary on application of the bold-letter requirements are retained in the one document. We believe Australian and other constituents are familiar with the present structure and would prefer requirements and guidance to be self-contained in the one document.

Nonetheless, we believe the style, in which the standards and accompanying guidance are written, requires considerable attention and could be improved. In several standards the guidance (and sometimes the standards themselves) is wordy and expressed in complex and lengthy sentences. This potentially hinders understandability and comprehension of an ISA, especially for practitioners from small audit firms who do not have access to technical resources to decipher the implied imperative obligations often contained within the commentary sections of ISAs. In order to improve the clarity of ISAs and attain changes in audit practice from promulgating new requirements in the standards, we believe the requirements and accompanying guidance must be stated more precisely and in general, the whole standard should be more succinct. Indeed, given legal authority (via various mechanisms) is being afforded to auditing standards in several countries, it is essential standards are clear and precise, in respect of mandatory and presumptively mandatory requirements, whilst still allowing auditors to exercise professional judgement in carrying out the audit.
<table>
<thead>
<tr>
<th>Respondent</th>
<th>Respondent Comment</th>
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<tbody>
<tr>
<td>Basel</td>
<td>In general, the Committee has no strong feelings about restructuring the standards.</td>
</tr>
<tr>
<td>CEBS</td>
<td>We have no strong feelings on this issue, though some members of the committee would prefer that the ISAs would follow the structure proposed under Option B (i.e. retain both the professional requirements and explanatory material in one document, but separated into two distinct sections).</td>
</tr>
<tr>
<td>CIPFA</td>
<td>We believe that ISAs should be restructured as we have already indicated. In particular they should be shorter, clearly set out essential principles and include far less illustrative and educational material.</td>
</tr>
<tr>
<td>CNCC-CSOF</td>
<td>As explained in the general comments, the French Institutes strongly support the restructuring of ISAs.</td>
</tr>
<tr>
<td>CPA Aus</td>
<td>CPA Australia believe that the current structure and style of ISAs, that is bold letter requirements followed by explanatory guidance, should be retained. This enables the standard to provide not only the mandatory requirements, but guide the auditor. For example, the explanatory material in ISAs such as “responsibility to consider” is essential to understanding the requirements placed on an auditor and therefore should be kept with the ‘unconditional requirements’ (requirements) and ‘presumptively mandatory requirements’ (presumptive requirements). This approach still distinguishes professional requirements from explanatory material within one authoritative document. However we do feel that a lot of explanatory material is background information i.e. codifying existing practice and believe that practitioners will benefit from more succinct standards. Moreover, it is CPA Australia’s belief that auditing standards are sector neutral and therefore the professional requirements should not differ between audits. The IAPS will still have a significant role to play regarding specific industry guidance where, for example, that guidance is appropriate across a number of standards such as with banking institutions. CPA Australia believe that a standard should be a ‘stand alone’ document, capable of comprehension and implementation by an auditor, without needing to refer to accompanying pronouncements.</td>
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<tr>
<td>DnR</td>
<td>We believe restructuring is necessary. We support the idea that both the professional requirements and explanatory material should be retained in one document, but separated into two distinct sections, where the first section would set out the professional requirements of the ISA (both requirements and presumed requirements contained therein). This should fiQi be called the “standard section” as long as the total document is called a standard. The second section should contain necessary explanatory material to support the proper application of the ISA. This will eliminate the need for bold type lettering. Clear guidelines should be developed for the IAASB to decide the extent of the necessary explanatory material to be included in the standard itself.</td>
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<td>Respondent</td>
<td>Respondent Comment</td>
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<tr>
<td>Further practical guidance should be developed and presented as separate Practice Statements or as appendices to individual ISAs.</td>
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<tr>
<td>DT</td>
<td>Some of our member firms believe that restructuring is essential. Others do not believe it is necessary or urgent. We do have a consensus view that the ambiguity of the use of the present tense must be eliminated. We have a consensus view that restructuring using option B is acceptable provided that appropriate principles for the determination of requirements are adopted. We believe the example of the reworked ISA 315 is acceptable.</td>
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<tr>
<td>EC</td>
<td>We support restructuring the ISAs in order to allow easier adoption and inclusion of ISAs in the EU regulation, and in order to deal with particular issues such as the audit of SMEs. See also § 2.6.</td>
</tr>
<tr>
<td>EY</td>
<td>We strongly believe that the IAASB should continue with its present style of ISAs, and do not favour restructuring. The arguments we find persuasive are:</td>
</tr>
<tr>
<td>• It is easier for a professional accountant to find the standard and the related guidance when it is contained within the same document. The professional accountant may find that he or she wishes to refer to guidance, but, presented with the need to search within a framework that contains a large number of other documents, may find it difficult to find everything that relates to the ISA under consideration. This may also be an issue in terms of time lags in translation, where priority may be given to translating the standards, but the translation of the guidance lags behind.</td>
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<tr>
<td>• Guidance is often context sensitive, and there would be a need, if the guidance was presented separately (either as a separate document or as a separate section within the standard) to set that context. The danger is then that only the guidance is used, and, unless the professional requirements are repeated in their entirety within the guidance, the professional accountant will not appreciate that he or she has not carried out all the professional requirements.</td>
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<tr>
<td>• While guidance may be self-evident or familiar, it is important that it is available, especially when the standard is new. The guidance will help professional accountants to determine what is new and aid in interpreting how to carry out the requirements of the standard.</td>
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<tr>
<td>• We recognize that this will affect the length of the standards. In view of this, see our suggestions for improving the clarity and understandability, as well as helping to navigate within the standards in question 2 above.</td>
<td></td>
</tr>
<tr>
<td>FAR</td>
<td>We believe that IAASB should restructure the ISAs in line with what we have suggested above.</td>
</tr>
<tr>
<td>FEE</td>
<td>FEE is in favour of restructuring the ISAs. We believe that the major reason for a restructuring is to clarify the structure of the ISAs as well as the status of the different parts of an ISA such as the professional requirements and the application and explanatory material. Restructuring is expected to strengthen the audit requirements and enhance the applicability of the ISAs. Restructuring would also aid in clarifying the authority and applicability of the IAPSs.</td>
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</tbody>
</table>
| GT | We believe that the present style of ISAs, as modified by the Proposed Policy Statement, should be continued. The professional requirements must be read in

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conjunction with the explanatory material to fully gain an understanding of the obligations imposed. Thus, the separation of the requirements from the guidance would reduce the level of understanding and clarity and therefore, hinder the adoption and implementation of the ISAs. By separating the professional requirements from the explanatory material, the IAASB increases the risk that the professional requirements will be read out of context and without regard to the explanatory guidance, which in effect reduces understandability, clarity and consistency in application.

H3C
We are in favour for ISAs to be restructured, with a more structured construction and further development in its clarification and reduction in the need for commentary. The current length and style of ISAs impairs the clear understanding of its fundamental principles, and should be construed in a manner which produces less commentary – which allows a wide interpretation of standards.

ICAEW
We strongly believe that there is a need for ISAs to be restructured for the reasons set out in the covering letter and answers to the preceding questions.

ICAI
The structure of the standards, subject to the proposal on the required and presumptively required procedures, should be retained. One suggestion is to consider the suggestion in the answer to question 2 above. We would not consider this a restructuring but an application of the current structure of the ISAs and IAPSs.

ICANZ
The world of financial reporting and auditing has become more complex in recent years, in part due to calls for greater regulation of the profession driven by recent financial scandals and the perceived failure by the profession to regulate its members. A consequence of this is the belief that: standards need to be more prescriptive and provide greater detail regarding the procedures auditors are required to undertake when conducting an audit; and standards need to be more rigorously enforced.

It is not surprising therefore that the revised ISAs require auditors to undertake additional procedures and also provide more detailed guidance on how auditors should implement the requirements of the standards. Nor is it surprising that a number of jurisdictions have introduced auditor oversight functions and have given audit standards legal backing or are considering doing so. These developments have implications for drafting audit standards.

These are significant changes and we believe that it is necessary to restructure the ISAs to reflect these changes and the environment in which audits are conducted.

The overall objective of the developing audit standards and related guidance is to improve the quality of audits. Restructuring the ISAs as proposed in Exhibit 2 will clarify the status of the audit procedures and principles and provide scope to develop guidance essential to assisting consistent implementation of the ISAs.

ICAP
There is a need for ISAs to be restructured. For reasons see our responses to questions 1, 2 and 3 above.

ICPAK
Yes IAASB should restructure. The present style is to be retained but IAASB move a large part of the explanatory material to a related International Auditing Practice Statements (IAPS). Page 23 of the draft option A.
**Respondent**  
**Respondent Comment**

**IDW**  
… we do not support continuance of the present style of ISA. Therefore, we believe that the IAASB should restructure the ISAs as noted in our previous comments as a matter of priority. As we have pointed out, the current structure of the standards does not allow a clear delineation of auditor obligations between application material and other considerations. This makes the current structure ill suited to allow the ISAs to become statutory instruments and impairs the clarity of auditor obligations.

**IOSCO**  
We believe that the IAASB should continue with the present style of ISAs, with language changes to clarify mandatory and presumptive requirements as noted in the Exposure Draft and as we have commented on in this letter. Please also see our answer to question 4 above.

**JICPA**  
We propose restructuring of the ISAs to separate professional requirement and explanatory material because the length of the recently issued ISAs has impaired their understandability and clarity.

**KPMG**  
We believe that there is a need for IAASB to reconsider the structure of the ISAs so that professional requirements are clearly differentiated from explanatory material and other guidance.

**NIVRA**  
We strongly believe, that the ISAs should be restructured in a way more supportive to the principle-based approach. The reasons we find persuasive are:

- The standards including the professional requirements will be more concise by separating professional requirements and explanatory material (either by way of two sections within one document or two separate documents).
- It is far easier to translate on a word by word basis a concise standard and make the explanatory guidance more country and context specific.

**PAAB**  
We recommend that the current style of drafting the Standards be continued but at the same time that an attempt be made to simplify the Standards. We do not support restructuring if it results in the separation of principles and guidance as it is important that the requirements are understood in the context of the overarching principles. It is also our view that restructuring will not necessarily result in improved clarity – indeed, by separating the guidance from the principles, the auditor may be more exposed to overlooking explanatory material which is important in the context of complying with the main requirement.

**RR**  
I do not believe that there is a need to restructure the ISAs. The IAASB’s objective is to produce a set of standards is applied consistently around the world. The varying nature of financial systems, commercial law and regulatory requirements means that explanatory material and guidance is more necessary in the international realm than it is in the domestic one. This in turn makes the explanatory material and guidance a more integral part of international auditing standards than of domestic standards.

Consistent application of ISAs requires more than just the consistent translation of the ISAs: it requires consistent understanding of the ISAs. This can come about only if auditors are required to treat the explanatory material and guidance as every bit as important as the standards themselves. I do not believe this will happen if the explanatory material and guidance is shunted off to a separate document or to a separate section of the standard.

Q6. If ISAs are to be restructured, which option should be pursued and why? Are there other options that the IAASB should consider, particularly in helping with the ability for auditors of both large and small- and medium-sized entities to implement ISAs?
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Respondent  Respondent Comment

AASB-CICA  We prefer restructuring option B because it retains all the guidance in one document compared to option A. We believe that this option will reduce the risk that readers will not read both the professional requirements and the explanatory material.

We see merit in the IAASB developing Basis for Conclusions documents, not necessarily for all standards, but at least for those where the IAASB decides that a Basis would be useful to stakeholders (for example, when a standard is long and/or complex). However, including the Basis for Conclusions in the same document as the explanatory material will make these documents much longer and therefore make it less likely that the explanatory material will be read.

ACAG  As outlined at question 4 above, restructuring IAASB standards and removing the explanatory material does require the reader to be aware of the existence and authoritative status of the ‘implementation guidance’ document. Of the restructuring options provided, option B is preferred on the basis that the professional requirements and explanatory material would be available within a single document.

AICPA  We do not support either Restructuring Option A, to retain the present structure of the International Standards on Auditing (ISA) but move a large part of the explanatory material to a related International Auditing Practice Statement or Restructuring Option B, to retain both the professional requirements and explanatory material in one document, but separated into two distinct sections. We believe that any proposal that removes the guidance from the ISA runs the risk of severely weakening the ISA.

The Proposed Policy Statement requires the auditor to consider the entire text of an International Standard. Removing the “grey letter” text from the standard, either completely or to a separate section, will reduce the ability of the professional accountant to understand the standard on its own. If the idea is that the entire text is relevant and should be considered by the auditor, we question what purpose it serves to separate it from the requirements.

Further, if either Restructuring Option A or Restructuring Option B is to be pursued, in order to provide some flow within the ISA, there will likely be considerable repetition. This will increase the length of the overall body of standards and lead to more complaints of “standards overload” and thus lack of clarity.

We support retaining standards and guidance in integrated documents. However, if the IAASB determines to undertake either restructuring option A or restructuring option B, we believe that the approach taken to redrafting the standards should be the modified prospective approach, whereby the redrafting of the basic audit model ISAs (as discussed above) is prioritized. If either option A or B is followed, standards-setters, like the AICPA’s Auditing Standards Board, may find it especially difficult to follow endeavors to converge with the IAASB’s standards.

APB  APB has a preference for Option A as this most clearly distinguishes the standards from implementation guidance material. However, it would find option B acceptable if other commentators had a strong preference for keeping the implementation guidance in the same document.
Respondent | Respondent Comment

AUASB | The AUASB believes in any restructure of ISAs, their requirements and accompanying guidance should be retained within a single document so as to avoid auditors having to refer to multiple documents and sources to ensure compliance with auditing standards. The restructure should allow auditors to quickly ascertain and implement requirements, including differentiating between mandatory requirements versus those that should or may be considered, having regard to the particular circumstances. It will be necessary to highlight requirements that are unconditionally mandatory and required for all audits versus other requirements. We suggest the IAASB should continue to obtain advice from plain English and other appropriate experts regarding various options that might be used in ISAs to improve delivery of their message in more concise terms. One option that might be considered to illustrate the differences between the requirements in ISAs is to adopt the format listed in the Table below.

[INSERT TABLE]

Basel | If the Board prefers to restructure the standards, the Committee sees some merit in option B, because this option may facilitate the incorporation of the standards into legislation in some countries. However, the Committee is not sure that the benefits of restructuring will compensate for the additional burden incurred in restructuring all standards. See also our response to question 4.

CIPFA | The two options suggested are (a) taking explanatory material into an International Auditing Practice Statement (IAPS) or (b) segregating explanatory material from professional requirements within each ISA. The merits of option (a) depend largely upon the view one takes of the current and future status of IAPSs – which is addressed in questions 13-15 below. On balance, we favour including the material in IAPS, rather than adding a third tier of pronouncement. We do not support option (a) because we do not think that ISAs are the appropriate place for such material.

CNCC-CSOE | The French Institutes favour option A because it more clearly separates the professional requirements from the explanatory material.

With respect to the second part of the question, the French Institutes consider that the restructuring of the standards is the best solution to ensure that one set of standards are maintained for the audits of both large and medium sized entities and also to deal with the perception issue by SMP that the standards do not apply to them and their clients.

If additional guidance is needed to explain the application of the standards in the context of the SMEs, it should be provided either in the explanatory material or in a lower level of text such as implementation guidance or training material.

DnR | See under 2 and 5.
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<tr>
<th>Respondent</th>
<th>Respondent Comment</th>
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<tr>
<td>DT</td>
<td>We support option B because, while permitting a clear distinction between the professional requirements and the “application material” by locating them in two distinct sections, it centralizes in one single document the requirements and the relevant explanatory material supporting proper application in specific circumstances (complex environments, small entities, etc.) in a comprehensive manner. We believe, moreover, that there would be a serious risk of relevant and important text in the application material not being considered by auditors if the two were separated. National standard-setters should not be allowed to present one without the other, or to make any changes to the application material in the course of the translation process that could weaken their substance.</td>
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</tbody>
</table>
| EC         | We support Option A. Option B could be acceptable provided that the first part is the stand alone standard, and that this is clearly stated in the body of the text. In order to facilitate the adoption and enforcement process of auditing standards, there is a need for a clear-cut structure. We suggest the following guidelines to substantiate two distinct components:  
  – A first component, comprised of the whole set of text necessary to represent the stand alone standard. This might become subject of law in the EU. The ISAs must clearly state that a standard is only comprised of this component. This component may include objectives, definitions, mandatory professional requirements, references, etc. which, altogether form the standard.  
  – A second component including only non binding guidance and explanatory material. As such, it should not add any professional requirements to the standard, and the guidance would be clearly evidenced as not being part of the standard.  
  – Particular issues: audit of SMEs  
International auditing standards will apply in the near future not only to the audit of listed companies, but also to all statutory audits performed in the EU. This encompasses the audit of several millions of private companies, and not only that of 7,000 to 8,000 listed companies. We support the idea of accommodating the needs for the audits of SMEs, and particularly the idea of taking advantage of the “clarity” project to take this matter on board. We could support any solution that would allow addressing appropriately specific issues implied by the audit of SMEs. |
| EY         | As noted in question 5, we do not favour restructuring. However, in the event that a restructuring option is pursued, we would favour Option B. Option B has the advantage of keeping the professional requirements and the guidance within one document, which we believe to be of overriding importance. There is also some appeal in having all the professional requirements gathered together without the guidance – to have a complete set of requirements in one place for ease of reference. However, because of the need to place both the professional requirements and the guidance in context, we favour the continued use of bold paragraphs to
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Respondent Comment

denote professional requirements, with the related guidance following immediately.

FAR
Restructuring Option A together with what we have suggested above we believe would result in pedagogic and operational standards.

FEE
FEE is of the opinion that a restructuring similar to Restructuring Option A is preferable to Restructuring Option B.

We refer to our comments on the “status of application material and practice Statements” as explained in our main comment on the Proposed Consultation Paper for further details on the reasons that were persuasive in reaching our view.

GT
To be clear, we strongly oppose the restructuring that is proposed. If the IAASB chooses to proceed to restructure the ISAs, we would prefer Option B, as it maintains the professional requirements and the explanatory material in one authoritative document. This approach minimizes the risk that the professional accountant considers the professional requirements without regard to the explanatory material by maintaining the explanatory material that is directly related to the professional requirements within the same document. International Auditing Practice Statements can then be used to address other interpretive guidance, industry considerations, guidance for small and medium sized accounting firms, and public sector matters.

H3C
As we are of the opinion that there should be a single document which sets out the ISAs in a clear, structured manner, the description of Restructuring Option A fits closest to how we would like to see the construction of ISAs.

ICAEW
The following comments should be taken in the light of the our comment in response to Question 2 above to the effect that restructuring options will be of little value if there is no overall reduction in the length of material with which auditors are required to comply (or are required to consider) and that a new category of document representing best practice might form an appropriate home for a substantial amount of material currently in both ISAs and IAPSS. That said, any restructuring involving either taking essential explanatory material away from an existing ISA, or segregating such material within an ISA, carries the risk that the perceived status of the material removed or segregated has either been downgraded or can be ignored. This risk can be reduced to a very low level by a clear explanation of the authoritative status of each category of pronouncement.

Option A: Taking explanatory material to an IAPS

The merits of this option depend on the perceived current and future status of IAPSS (see answers to Questions 12 – 14, below). As noted below, the current authority of Practice Statements is clear and understandable, but is perceived as weak, and is inconsistent the authority of explanatory material in ISAs. This issue must be addressed if IAPSS (or a certain category thereof) are to be effectively used as used as a repository for some essential explanatory material currently in
ISAs.
The current difficulties with the perceived status of IAPSs, and their adoption in some jurisdictions but not others, mean that this option may not be the optimum solution.

Option B: Segregate professional requirements from explanatory material within an ISA

Whilst there are drawbacks to this option, it is our preferred option. We agree with the reasoning set out in the Consultation Paper for this option which maintains the integrity of the ISA.

Option B Alternative: Create a new document for explanatory material

We envisage that this model would provide greater flexibility for the updating of essential explanatory material than the main option B, however, the principal drawback – the fear that such material might be ignored – outweighs the benefits of flexibility.

ICAI
Option A paragraph 19—which we would not consider this a restructuring but an application of the current structure of the ISAs and IAPSs.

ICANZ
We support the proposal to restructure the ISAs as set out in Exhibit 2 and agree with the benefits outlined in paragraph 24 of the Consultation Paper.

ICAP
If the ISAs are to be restructured, the restructuring option B is more appropriate; as under this option, a reader could easily identify the professional requirements at one place while referring to the relevant explanatory material requirements as and when required/desired.

This would also help the auditors particularly in differentiating mandatory compliance requirements that are currently being lost in the length of standard.

We appreciate the idea of referencing the application material with the professional requirements e.g. in Exhibit 2 of the supplement illustrative examples the sub-heading “Inquiries of management and others within the entity is referenced as (Ref: ISA 315, 4 (a)).

However, in order to facilitate the users in identifying whether application material is available for a particular professional requirement, it is suggested that the linkage between the two sections may be improved by cross-referencing both sections i.e. professional requirements with the application material.

For instance in Exhibit 2 of the supplement illustrative examples - ISA 315 Standards following heading may be cross-referenced as: “Risk Assessment Procedures and Activities (Ref: Application Material A6 – A9).”

ICAS
On the issue of restructuring, we favour Option B, as set out on page 23 of the Consultation Document. This Option retains the professional requirements and
explanatory material in one document but in distinct sections and we favour this Option on the basis of the arguments set out on page 24 of the Consultation Document. We believe concerns that the explanatory material will be ignored can be addressed effectively through the clear statement proposed by the IAASB on page 9 of the Explanatory Memorandum. Such a statement should clarify that it is the responsibility of the professional accountant to consider all aspects of the standards.

ICPAK
Option A.

IDW
We strongly favour restructuring option A to the extent that, in line with our previous comments, and in particular our answer to question 2 posed in the proposed Policy Statement, option A involves including all objectives, requirements, presumptions and application material into the ISAs and including all of the other considerations into the IAPSS as described in our previous comments.

As we noted in our general comments to both the proposed Policy Statement and the Consultation Paper, we believe that applying the principle “an audit is an audit” and “think small first” would go a long way to allowing the ISAs to be applied with equal facility to large and small audits. For this reason we view option A as ideal. It would be possible for the IAASB to provide additional considerations within an IAPS for the audits of large or listed entities, varying jurisdictional issues, or for industry sectors, for example, as and when circumstances dictate.

IOSCO
We do not believe the need for restructuring the ISAs has been demonstrated. If it is decided to make some changes in the drafting format of standards to highlight objectives in standards and/or to enhance readability, this should be explored as described in our answers to questions 4 and 8 of the Consultation Paper.

We believe the length and detail of recent standards has not been excessive or added undue complexity - we believe the standards are describing basic audit procedures and related guidance that properly trained auditors, including auditors of small and medium-sized entities, should be able to understand.

JICPA
We support Option B because one document with two separate distinct sections for professional requirement and explanatory material enhance the understandability and clarity of the standards. We also propose a more flexibility for implementation of the explanatory material and appendices in national standards because the explanatory material and appendices do not always enhance understandability.

KPMG
We believe that this differentiation is most easily achieved by including the explanatory material and other guidance in the Practice Statements as proposed in Option A, however, Option B is also acceptable. The advantages to restructuring ISAs along these lines are that it:

- Enables practitioners to easily identify what they are required to do in order to comply with International Standards;
- Gives IAASB added flexibility in developing necessary guidance including guidance for owner managed entities and industry specific guidance; and
Facilitates translation and reference to professional requirements in jurisdictions that incorporate such requirements in their legislation.

**NIVRA**

We prefer a structure as set out under Option B. That option has the advantage of keeping the professional requirements and the explanatory guidance within one document.

We are under the impression that the structure chosen by the IFAC Education Committee in drafting their standards might be an alternative. They recognize three layers in the standards namely: the standard itself followed by guidelines and on the lowest level best practices. If this approach is transferred to the ISA’s we still can adopt the option B as the standard and the related guideline drafted in one document and bring all the other materials like those related to small- and medium-size entities, public sector or specific branches and other specific items now drafted in IAPS’ into a standard related best practice document. The advantages of this approach is that IFAC will have only one structure in its standards which makes its standard setting process more transparent to regulators and member bodies.

**PwC**

We believe that IAASB should embark on a revision of the ISAs. As described in our covering letter, however, we propose an alternative approach that is a more fundamental restructuring and revision than any of those proposed in the Consultation Paper. We believe that IAASB should take the time to develop a conceptual framework for the ISAs and a robust structure that can guide the drafting of individual standards in future. We believe that any short term solutions that attempt to retrofit the existing body of standards are ill-advised and are concerned that they could have a significantly negative on audit quality.

**RR**

I do not think either option should be pursued and find it difficult to select a least worst alternative. In my view, practice statements should be restricted to covering specific subject matters or specific industries and should not be used for matters that affect either all audits all aspects of a particular audit. As a practical matter, I do not think it will be possible to move the explanatory material and guidance to a separate IAPS without there being considerable duplication of material that is included in the ISA.

I also think that a separate application section would be unhelpful. I think that the same problems that currently bedevil establishing the status of non bold type paragraphs will bedevil establishing the authority of the application section. Some people will regard it as part of the standard and others will not. Although superficially similar to the basis for conclusions that the IASB includes in its ifrss, the application section would serve a completely different purpose and so such a comparison would be misleading.

**Pursuing a Restructuring Approach**

Q7. Notwithstanding the decisions of the IAASB regarding the proposed Policy Statement (see accompanying Exposure Draft), in the event there is strong support for the restructuring of ISAs, do respondents agree that any such restructuring should be applied on a prospective basis? Or should restructuring be applied...
Comments Received on Clarity Consultation Paper

AGENDA ITEM 9-D.2

Respondent Comment

prospectively, but on a priority basis first to a limited number of ISAs that have attracted concerns about their length and complexity, namely the IAASB’s recently issued audit risk and fraud ISAs? If so, what are the reasons that are persuasive in reaching your view?

AASB-CICA We believe that prospective application is the only practical alternative for implementing the restructuring. We would prefer the approach of identifying those standards that are particularly long and complex and restructuring them on a priority basis on the presumption that doing so will more quickly address the main areas of concern. As stated in our response to question 5, we believe that particular emphasis needs to be given to ensuring that the professional requirements are self-standing and are in a logical flow.

ACAG Should restructuring of ISAs be undertaken, we believe it should be undertaken on a prospective basis, to free up the IAASB’s resources to continue its current program of projects.

ACCA Our answer to this question depends upon what is meant by a restructuring of ISAs. If such a restructuring merely involves the reordering of material, then it may be applied on a prospective basis. If the restructuring arises from a reconsideration of the purpose and nature of ISAs, it would not be appropriate on that basis. Different forms of standards would make compliance and monitoring unnecessarily difficult.

APB As explained in response to question 9 to the Exposure Draft APB would prefer the IAASB to move forward in the short term on a two-track approach by: (i) Identifying the fundamental principles, and (ii) Revising the ‘older ISA’s using the current convention. At an appropriate point in the future it should then adopt a ‘big-bang’ approach by restructuring the ISAs.

AUASB The AUASB, as noted above, supports the adoption of new drafting conventions to improve the specificity and clarity of the requirements in ISAs. Indeed, it would be of significant assistance to the work of the AUASB, as it revises and reissues its auditing standards as delegated legislation having the force of law, if the IAASB were to undertake a complete review of all its ISAs and subsequently reissue the revised standards with a common commencement date. It is appreciated progress on existing projects would be delayed if such an approach were adopted, though nonetheless we believe a ‘big bang’ strategy is preferable to revision and reissue on a piecemeal basis.

As mentioned, ideally, the AUASB’s preference is to progress its revision of standards alongside a similar review of ISAs by the IAASB, given the respective revisions have similar objectives. Also, this approach is the easiest way of retaining the linkage and conformity between AUSs and ISAs. However, adopting this approach is dependent on finalisation of the clarity proposals and conventions by the IAASB. It is appreciated this may not be possible within the AUASB’s time horizon.
Therefore, if a prospective approach were adopted, it would be helpful if the IAASB:

- issued its final approach towards adoption of the clarity proposals, that is, in regards to the principles, conventions, protocols and methodology that would be adopted to make ISAs in accordance with the new drafting conventions; and

- published a Work Program indicating the likely time frame for redrafting ISAs in accordance with the clarity proposals.

This would assist the AUASB in finalising its approach toward issuing auditing standards as delegated legislation within its prescribed timeframe.

**Basel**

Please refer to our earlier response to question 9 on the Exposure Draft.

**CEBS**

As already noted in our answer to question 9 in the ED above, though we would favour the issuing for exposure at a single point in time of a complete package of revised ISAs, we appreciate that this might consume an inordinate amount of time when there are other pressing demands on the IAASB. Therefore, we would support an approach which focuses at first on a revision of the key standards followed, as soon as possible, by a revision of the other existing standards.

**CIPFA**

We stated our view under A9 above that preferably all ISAs should be revised and re-issued with effect from the same date. However, if a priority basis is adopted, we agree that the risk and fraud ISAs should be dealt with first.

**CNCC-CSOE**

Although, as mentioned in the response to the exposure draft, the French Institutes would have preferred a big-bang approach, they agree that the restructuring should be applied prospectively but on a priority basis to the audit risk and fraud ISAs.

**CPA Aus**

CPA Australia would prefer that the IAASB issue its revised ISAs in a ‘big bang’ approach rather than taking a prospective approach. The reason is that Australia is required to re-issue all its standards as disallowable instruments prior to July 2006 and the clarity project would provide a framework for the AUASB to undertake this review.

The restructuring may be so fundamental that it will be easier to reeducate everyone at the one point in time, particularly students gaining CPA qualification and established practitioners who need to consider how the changes impact on their audit practice. Therefore the big bang approach may be the easiest option.

However, we do acknowledge that a complete review of all ISAs at this time would impede progress in existing projects and is unlikely to be practicable. A more practical approach may be to issue standards in packages of related standards such as the audit risk standards on a priority basis. Standards can be “packaged” by topic and addressed in order based upon their impact on audit outcomes.
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<th>Respondent</th>
<th>Respondent Comment</th>
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<tr>
<td>DnR</td>
<td>Preferably, all ISAs should be restructured. Provided that principles for the restructuring outlined, the technical work might be outsourced to national institutes or audit firms. As a minimum, we believe that the risk and fraud ISAs should be restructured.</td>
</tr>
<tr>
<td>DT</td>
<td>Although a big-bang approach is desirable in a perfect world, time considerations make it impossible. As suggested earlier we believe the standards should all be revised over a 5 year period beginning as soon as the principles for the determination of requirements and the structure are agreed. Some of our member firms believe the oldest standards should be revised first because the newer ones have undergone recent consideration and identification of requirements and therefore have less ambiguity with respect to the use of the present tense. Other member firms prefer the approach of addressing the Risk Assessment and Fraud standards early because they form the underpinning of many other standards. We believe there are merits to both and can accept either approach.</td>
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<tr>
<td>EY</td>
<td>We agree that restructuring should be applied on a prospective basis, but on a priority basis to the limited number of ISAs that have attracted concerns about their length and complexity.</td>
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<td>FAR</td>
<td>Retrospective implementation would be desirable but we would respect a view that application on a prospective basis would be seen as the only realistic alternative.</td>
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<td>FEE</td>
<td>FEE is of the opinion that a prospective approach would be problematic and that the provisions of the Proposed Consultation Paper should apply to all existing International Standards as well as to future exposure drafts on the date of final approval of the Proposed Policy Statement. From a practitioner perspective the “first approach”, whereby all existing standards are revised at once, is preferable to a stepped approach whereby the revision of the existing standards is performed following a predetermined time schedule in order to resolve the staff resource issue without compromising the IAASB due process. We refer to our comments on the prospective approach as explained in our main comment on the Proposed Policy Paper on “basis of application” for further details on the reasons that were persuasive in reaching our view.</td>
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<td>GT</td>
<td>In the event there is strong support for restructuring, we prefer that it be applied prospectively on a priority basis. As stated in our letter, we prefer that the IAASB adopt the second approach to implementation of the Proposed Policy Statement to redraft and reissue the audit risk and fraud standards using the proposed conventions. Accordingly, since the clarification of language and a restructuring would only be done once, we believe that the audit risk and fraud standards</td>
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Respondent | Respondent Comment
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H3C | With consideration to our response to the Exposure Draft, we are in favour of an ISA restructuring to be applied on a prospective basis, with priority given to audit risk and fraud ISAs.

ICAEW | We believe that a stable platform is an essential pre-requisite to any restructuring as described in the covering letter (point 5). We do not believe that restructuring should be applied on a prospective basis.

ICAI | Application on a prospective basis is the only practical approach to any restructuring undertaken. This is a practical approach but there is an onus on IAASB to undertake a revision of all standards within a limited time frame of 2-4 years if the restructuring is to be meaningful and if it is to be successful.

ICANZ | Our preference is for the IAASB to start work on redrafting certain key standards such as the audit risk standards and the new fraud standard. Given the nature of the changes proposed we believe that it is important that the IAASB devote time to redrafting certain of the recently revised standards.

The new audit risk standards and the new fraud standard are central to the ISA audit approach. These standards are also relatively long and complex and this fact no doubt contributed to the decision to consider the clarity of ISAs.

Redrafting certain of the revised standards will require deployment of some of the IAASB’s resources and may impact the IAASB’s work programme. However, we believe that the IAASB will be better placed in the longer term if it were to apply the proposals to these key standards and establish the model for developing other standards moving forward. In addition changes to format and structure of the audit risk and the fraud standards may affect the structure and format of other standards on which the IAASB is currently working. We recommend that the IAASB devote time over 2005 to redrafting these key standards.

ICAP | We agree that the restructuring be applied prospectively, but on a priority basis first to a limited number of ISAs that have attracted concerns about their length and complexity, namely the IAASB’s recently issued audit risk and fraud ISAs to check whether or not it is feasible to apply them specially where the ISAs are translated into local languages.

This would also help address the concern that substantial increase in length of the standards, continuing with the same style i.e. bold type lettering and continuous paragraph numbering has impaired the clarity of these standards.

ICPAK | Yes restructuring should be applied on prospective basis once this would ensure that the entire document is done once. It would be better for the ISA’s to be revised
at once in order to avoid complexities that come with piecemeal revisions e.g. lack of cohesiveness’ of the document.

IDW
As we noted in our previous comments, and in particular in our comments to question 9 of the proposed Policy Statement, we believe a retrospective approach involving the concurrent application of the Policy Statement and restructuring to be necessary. We also noted that we do not believe that applying a retrospective approach to only the audit risk and fraud standards would alleviate – in fact it may exacerbate – some of the clarity problems from which the ISAs currently suffer. It would cause great confusion to readers if the ISAs contained two different systems of wording obligations along with two different systems for allocating these obligations among documents. Furthermore, the distinction in obligation between application material and other considerations can probably only be solved by means of structural changes.

IOSCO
We urge that any such changes should be applied on a “modified prospective” basis, i.e., including revisions to the Audit Risk and Fraud ISAs but not for the reasons stated. We do not think these recently issued standards are too long and complex, but they are important standards that touch on areas that are at the heart of overall audit risk assessment and planning and also address fraud, a subject of great concern to investors and other users of audits. Their overall importance and recent issuance is why we think they could and should be revised in a relatively swift project into the language indicated for requirements by the ED, as affected by our comments in this letter.

IRE
The IRE is not favourable to the simultaneous existence of two different sets of international standards on auditing, since it would not serve clarity. The IRE favours the restructuring of all ISAs, as expressed before. We also refer to our answer to question (9) of the exposure draft (cf. supra).

JICPA
The length and complexity of the IAASB’s recently issued audit risk and fraud resulted in the need for restructuring of the ISAs. We propose that restructuring should be applied prospectively on a priority basis. However, the prospective application on a priority basis would create an excessive amount of work for the IAASB working group. Therefore, we believe that the resource constraint of the IAASB will need to be addressed.

KPMG
As we noted above our preference is for IAASB to revise all existing ISAs at the same time and to expose revisions in one document. However, we recognize that the size of this type of undertaking does not make it a viable alternative. We therefore recommend that once IAASB agrees on the Framework that underlies an ISA audit and on the appropriate structure and language that should be used in drafting ISAs, it should establish a work program that is aimed at identifying how and in what order existing ISAs will be reviewed, revised and exposed so that they conform to the approved structure and language.

NIVRA
Yes, we support the prospective approach.

PAAB
… We do not agree that the proposals should be applied on a prospective basis. To do this will make it difficult for auditors to know under which convention the
Standard was issued. Furthermore, the impact on audit firms’ methodologies will need to be considered if the effective dates of the implementation of the new drafting convention is different.

Finally, as mentioned in our overall comments, it is important for those countries which have adopted the International Standards to have a stable platform from which to apply the Standards.

We therefore recommend that, should the project continue, consideration be given to issuing the Standards drafted on the new convention in one batch.

PwC For the reasons described in our covering letter, we support the prospective approach

RR I do not see how restructuring could be done on anything other than a prospective basis: standards do not restructure themselves. If the IAASB decides to restructure its standards then I believe that it should, as a matter of priority, restructure the core standards dealing with the audit risk model before attempting to issue new standards on different subject matters. However, should the IAASB decided to identify fundamental principles of assurance then I believe the restructuring should wait until after those principles have been identified. That would allow the restructured standards to be written in a way that shows how they apply the fundamental principles.

**Fundamental Principles Underlying an ISA Audit**

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<th>Question</th>
<th>Response</th>
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<td>Q8. Do respondents believe that identifying “fundamental principles underlying an ISA audit” would aid in communicating the principles that underlie the professional requirements in ISAs and ultimately help drive the auditor’s professional judgment? Please give reasons for your answer.</td>
<td>We believe that identifying the fundamental principles underlying an ISA audit would aid in communicating the principles that underlie the professional requirements in ISAs. However, we do not believe that doing so will have a significant effect on the professional accountant’s use of professional judgment in an audit of financial statements because the audit is an established engagement and the principles of an audit are generally well understood.</td>
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ACAG Identification of the ‘fundamental principles underlying an ISA audit’ would be of assistance to succinctly explain the core professional requirements of a professional accountant undertaking the audit process. These fundamental principles would also be useful in understanding, and explaining to junior audit staff, how the requirements of individual standards fit into the overall ‘picture’ of an audit.

ACCA It is axiomatic that the development of a principles-based approach requires that those principles be established. We strongly support the commencement of a project to identify the principles underlying an audit in accordance with ISAs. Such a project would necessarily address the interaction between those principles and auditing standards.
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<th>Respondent</th>
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<tr>
<td>APB</td>
<td>APB does believe that this would assist with communication. It would also (i) assist the IAASB to develop future ISAs from a ‘top down’ perspective, (ii) distinguish ‘shall’ from ‘should’, and (iii) provide a framework for the justification of departures from ‘should’ requirements.</td>
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<td>AUASB</td>
<td>The AUASB supports identification of the “fundamental principles underlying an ISA audit”, given the fundamental principles represent the essential tenets that ought to underlie all audits conducted in accordance with ISAs (or Australian auditing standards), regardless of the size or type of entity being audited.</td>
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| Basel      | We would welcome such an approach as: a) It would highlight such principles and emphasise the key role of professional judgement in an audit. b) It would provide a hierarchy and framework for international auditing which would further aid clarity and consistency in the following way:  
  i) There would be a hierarchy of auditing statements with the principles as the key overarching objectives of an audit, followed by standards at a lower level and practice statements at the next level. Therefore it would be clear that the principles are key and that the standards should serve the principles.  
  ii) The provision of a framework would ensure that any areas that are not currently covered by ISAs are covered by the principles laid out in the statement of principles.  
However, we believe that there needs to be some clarity about how these principles should be derived: they should start from “what is the purpose of the audit” – at a public interest level – and then progress to what the principles of such an audit might be and then what standards are necessary to follow these principles. |
| CEBS       | We would welcome such an approach as:  
  a) It would highlight such principles and emphasise the key role of professional judgement in an audit.  
  b) It would provide a hierarchy and framework for international auditing which would further aid clarity and consistency in the following way:  
  i) There would be a hierarchy of auditing statements with the principles as the key overarching objectives of an audit, followed by standards at a lower level and practice statements at the next level. Therefore it would be clear that the principles would be key and that the standards should serve the principles.  
  ii) The provision of a framework would ensure that any areas that are not currently covered by ISAs would be covered by the principles laid out in the statement of principles (somewhat akin to the relationship between the Framework for IFRS and the actual IFRS).  
However, we believe that there needs to be some clarity about how these principles should be derived e.g. the principles should start from ‘what is the purpose of the audit’ – at a public interest level – and then what the principles of such an audit might be and then what standards are necessary to follow these principles. These principles could then drive the decision on what should be a ‘shall’ or ‘should' in the standards.  
In addition, in identifying such principles, it might appropriate to liaise with other competent bodies such as the European Commission to ensure that there is no
inconsistency between what is done in this field by each competent body. Alternatively, this could be dealt with through normal due process (e.g. exposure and comment letters).

CIPFA Yes, and we believe that the fundamental principles set out in the consultation paper which are taken from the IFAC Ethics Committee’s Exposure Draft Proposed Revised Code of Ethics for Professional Accountants, July 2003, is an appropriate statement of such principles, subject to a review of some of the wording eg ‘shall’ and ‘should’.

CNCC-CSOE The French Institutes are in favour of having standards which are “principles based”. For this reason they support identifying such fundamental principles. They consider that the identification of such principles would help the IAASB to determine, within a framework, where the professional requirements actually lie.

CPA Aus Generally yes, as this would provide an overarching framework and context for the application of standards.

DnR We believe that identifying fundamental principles underlying an ISA audit would be an XXX in communicating the principles that underlie the professional requirements in ISAs. We believe that there should be a thorough and due process to identify the right set of principles.

DT We believe that identifying the “fundamental principles underlying an ISA audit” is a prerequisite to communicating the professional requirements and will:
- enhance the distinction of “shall”s from “should”s,
- provide criteria for the justification of departures from professional requirements,
- set a frame of reference for developing new standards.

EC Yes, it would help drive the auditor’s judgement, although this would in our opinion not be decisive because we understand that the principles identified so far by the Board have been picked up here and there from existing material in the ISAs.

For the sake of clarity, “fundamental principles underlying an ISA audit” should not be confused with the “principle based approach” we support for the conduct of an audit. The principles we refer to in § 1.7 and 2.4, would represent a broader set of principles, including professional requirements.

EY In principle, identifying ‘fundamental principles underlying an ISA audit’ has our support, for the reasons set out in paragraphs 33 to 35 of the Consultation Paper. We believe that the identification of such principles would contribute to clarity and to making ISAs more accessible to professional accountants in the field.

Our concern is that the ‘fundamental principles’ which are set out in the Consultation Paper are a set of overriding themes which could be used to articulate the framework within which the professional accountant conducts the audit.
They are not a set of fundamental principles to guide the execution of an audit – without standards on particular topics, which set out the fundamental principles and professional requirements related to the execution of various parts of an audit, it is very doubtful that professional accountants would have sufficient guidance to be able to deliver consistent audit quality.

FAR

We believe that all matters concerning and related to fundamental principles should be included as an important part of a project addressing the issue “reasonable assurance”. Such a project should have highest priority. If we are to communicate internally within the profession and externally to “the market” the two types of assurance engagements identified in the Assurance Framework, the nature of and rationale for the respective engagement needs to be clear. Considering the priorities discussed in agenda item 3 papers in the New Orleans background papers, it would be an odd signal and difficult to understand if IAASB would prioritize, for instance, a revision to ISA 505 before a project aiming at clarifying the meaning of reasonable assurance.

FEE

As already explained in our main comment on the Proposed Policy Paper on the “preference for objectives-based international standards”, FEE is a strong proponent of “principles-based” International Standards and therefore supports the concept of having principles and ethical requirements underlying an ISA audit. We encourage IAASB to pursue the identification of a set of high level principles, referred to in the consultation paper as fundamental principles.

We do not share the concern expressed in the paper that the development of principles may only be of assistance to the IAASB and standard setters and not be useful to practitioners. FEE is of the opinion that principles are equally valuable to practitioners, as further detailed in our main comment on the Proposed Policy Paper on “preference for objectives-based International Standards”.

We encourage IAASB to consider the consistency of the terminology used in respect of “principles” as reference is not only made to “fundamental principles” but also in various places to “basic principles” and “general principles” in the Proposed Policy Paper and Proposed Consultation Paper. We also encourage IAASB to consider the consistency of the terminology used in respect of “principles” in other IAASB and IFAC (International Federation of Accountants) material. The International Framework for Assurance Engagements, ISA 200 “Objectives and General Principles Governing an Audit of Financial Statement” and the IFAC Code of Ethics for Professional Accountants also make reference to “concepts” and “fundamental ethical principles”. We prefer that the same terms are used throughout when referring to the same things.

FEE does not believe there is a significant difference between “fundamental principles” and “principles”. In the context of principles-based standards the word “fundamental” might even be misleading. Individual ISAs already include more details as to how the principles referred to in the paper as “fundamental” need to be applied; in future other ISAs may be needed to explain in more detail how these principles should be applied. FEE would expect that the professional requirements described as “shall” would mirror the high level principles and that those high level principles will be supplemented by professional requirements in the form of more detailed objectives.
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GT  We support the fundamental principles underlying an ISA audit. Such principles could essentially enhance the quality of audits by setting the proper tone for professional accountants and the foundation for their responsibilities, thereby indirectly guiding professional judgment. They are also important in ensuring that the objectives of the standards are clear. However, we do not believe that identifying the fundamental principles is critical to the development, understandability, and application of ISAs; as the proposed fundamental principles are already embedded within existing standards, so the extent to which they would drive professional judgment is questionable. (Also see our response to question 10 below).

H3C  [Response to Qxx-xx on principles] We are of the belief that it is imperative that there should be established ethical rules underlying all the standards but at the same time, unfavourable not in favour for a mixture of types and all discussions, explanations, interpretations and commentaries should be excluded as this leads to difficulties in the application of the standards. Principles of ethics should be clearly outlined in a Code of Ethics, and ethical standards clearly written to describe the rules to follow in the conduct of an audit. Standards should be self-understanding without the need to be attached to a framework.

ICAEW  The fundamental principles of auditing dealt with in the Consultation Paper are critical
We strongly believe that there must be some coherent basis for determining how current and future professional requirements are to be developed.

The determination of what should be a professional requirement should, and what should not, should not be left to the judgement of IAASB staff and committee members without the support of a robust framework. We believe that the current proposals will increase the number of professional requirements within ISAs significantly. There needs to be some check on this to prevent the proliferation of prescription. In the current climate, there may well be a temptation to take ‘if in doubt, mandate’, approach, which will have far reaching consequences. We cautioned the SEC in this regard when commenting on the proposed Rule 3101.

We therefore strongly recommend that the proposed Policy Statement should not be progressed until some degree of consensus is achieved on the fundamental principles to be adopted. Without a proper framework, IAASB will be forced to determine ‘shall’ and ‘should’ on an ad-hoc basis. The IAASB itself has commented adversely on this approach which appears to be the approach taken by the PCAOB. The proposals in the proposed Policy Statement and the restructuring proposed in the Consultation paper should not be decoupled.

Furthermore, we note in our answers to questions on the proposed Policy Statements that we have no hesitation in suggesting that professional requirements should be used as little as possible, and that consideration should be given to restricting the use of the term ‘shall’ to fundamental principles.

ICAI  Yes the identification of fundamental principles would be a helpful addition to the standards, as it would put the standards into a principle based framework applicable to all auditors globally. In today’s global commercial environment, a common framework of principles applicable to all auditors internationally is a laudable and necessary objective. The development would also enhance the IAASB to assess each project undertaken and to prioritise projects within a defined and agreed framework.

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<th>Respondent</th>
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<tr>
<td>ICANZ</td>
<td>We agree that identifying the fundamental principles underlying an ISA audit would be a useful exercise. These principles are implicit in audit practice and in the audit standards. Making them explicit is important to develop and progress the next generation of standards. Development of audit policy shares characteristics similar to policy development more generally. Practice evolves and overtime is codified into standards. From standards principles can be distilled, which serve as a basis for revision of standards and for assessing the adequacy of practice. This is an ongoing process. Ultimately development of fundamental principles should provide direction to developing standards and help ensure consistent and high quality audits are delivered.</td>
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<td>ICAP</td>
<td>Yes, identifying “fundamental principles underlying an ISA audit” would be an appropriate step to emphasize on the credibility of the auditors to exercise due care on the assignment. The word “rigor” used in the underlying principle (i) is very strong and should be considered for replacement with some other appropriate word for instance “firmness”.</td>
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<td>ICAS</td>
<td>We believe that the development of a set of ‘fundamental principles’ to underpin international standards must be achieved prior to the adoption of the proposed Policy Statement and any restructuring of international standards. Whilst we favour the adoption of ‘fundamental principles’ which are high level, we are not convinced that each of the ‘fundamental principles’ set out on page 30 of the consultation paper are necessarily principles, for example ‘documentation’ is a means by which an auditor can demonstrate that he has discharged his duties rather than a principle which underpins the audit. Therefore, further work is required to identify a set of ‘fundamental principles’ which would gain credibility with the profession. We believe that a principles based approach will have the following key benefits:</td>
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<td>• The creation of a flexible framework appropriate for application throughout the world, which will meet the needs of all organisations requiring an audit while driving audit quality upwards.</td>
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<td></td>
<td>• A refocusing of auditors’ attention away from compliance with an onerous set of requirements to the exercise of professional judgment and the development of innovative approaches and solutions to key issues, which are tailored to their clients’ particular circumstances.</td>
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<td>• The establishment of a robust control framework which could prevent the introduction of unnecessary professional requirements over the longer-term.</td>
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<td></td>
<td>• It will be more straightforward to translate principles into other languages than more voluminous and more specific rules. Thus a more principles based approach would facilitate harmonisation/convergence.</td>
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</table>
ICPAK  Yes identification of the underlying fundamental principles would aid in communicating the underlying professional requirements. The nature of the work requires a lot of trust which can only be based on the strong values as envisaged by the fundamental principles.

IDW  …in our view, each ISA should clearly identify the objective to be achieved by every audit requirement or presumption. We believe that it is necessary for the auditor to fully appreciate the audit objectives that underlie the professional requirements and presumptions in each of the ISAs and that this understanding is essential in ensuring the effective application of the auditor’s professional judgment in an audit. This is also predicated upon the auditor understanding the reasons behind the objectives. The question is, what is understood by the term “principles of an ISA audit” and whether it is related to the “reasons behind the objectives”. In paragraph 40 of the Consultation Paper, the fundamental principles are described as comprising the essential qualities underpinning every ISA audit. To the extent that “fundamental principles underlying an ISA audit” comprise the reasons behind audit objectives, we would agree that identifying these would aid in communicating the principles that underlie the professional requirements in the ISAs and ultimately help drive the auditor’s professional judgement. If something else is meant, we may not necessarily agree.

IOSCO  We would not object to content in ISAs discussing the fundamental principles shown in the Consultation Paper – indeed, how could one object to such statements? We would see such statements as being more appropriately included in an ISA of their own, perhaps titled something like “fundamental principles underlying audits”, rather than be inserted into numerous individual ISAs. Such an ISA should have no greater or lesser authority than other ISAs, but simply be an ISA of a different kind, more of a “background” ISA, or one that supplements or provides a framework for more specific ISAs. In some respects, a separate ISA on fundamental principles would be similar to what exists in some jurisdictions that today have two levels of auditing standards, i.e., sets of general standards and sets of more specific standards.

We are in favor of standards that are based on principles and contain clear statements of principles and objectives. We are also in favor of identifying and communicating broad principles relating to audits, but we do not see a special project to create and set out a list of broad fundamental principles as a project that needs to be done immediately. Such a project would divert resources away from the more immediate improvements that could be made by adopting the provisions to clarify requirements in ISAs as described in the ED.

We understand that the IAASB might want to explore ways to say more about objectives and principles in standards. We think that a good way to do this might be to strive to begin each new standard with a brief discussion of objectives and/or principles involved. Exploring an approach like this could be done gradually, over time, as new standards are developed. Moving to such an approach should be more a matter of enhancing and adding to what is already in an ISA, rather than reorganizing the content or restructuring to split the content into two documents.

We think it is important to keep in mind that objectives and principles and requirements are not all the same things. All of the fundamental principles shown in the Consultation Paper are “good principles” that underlie various aspects of auditing. But since the principles are very general and overarching, they are not really an
adequate basis for guidance as to specific actions and decisions needed in an audit. We see the need to clarify “requirements” as more relevant to actions and decisions needed in an audit and a more pressing need than publishing a list of fundamental principles. We also see a need to consider and identify principles that help in deciding whether a given procedure should be a mandatory requirement, a presumptive requirement, or merely an option or consideration. In our discussion, we did not resolve what such principles should be, only the need to identify what is so important to carrying out a good audit that it unequivocally should be required in every case (for mandatory requirements) or in nearly every case (for presumptive requirements).

Though the proposed fundamental principles are appropriate to some extent, they are a mix of operating procedures (e.g., an auditor should obtain sufficient evidence) and principles of professional behavior (e.g., an auditor should use professional judgment) which makes it unclear whether they are all of the same equivalent status. Fundamentally, they also do not address the objective of an audit, which should drive the principles that follow. There needs to be a clearer linkage back to the objectives of an audit such that the hierarchy of principles is clear.

Identifying “fundamental principles underlying an ISA audit” (“Fundamental Principles”) would aid a specification of professional requirements and a consistency in preparing ISAs. However, we do not believe that Fundamental Principles, in all cases, would be supportive to auditor’s professional judgment at audit field because Fundamental Principles are a high level of principle.

As already mentioned, we support the development of fundamental principles. We believe that these principles should form the basis for mandatory requirements. The completeness and appropriateness of the principles identified in the Consultation Paper need to be assessed in the context of a Framework that defines the objectives and key elements of an ISA audit.

We also have one editorial comment. Principle (1), Documentation should state that the auditor shall document matters that form the basis for the auditor’s report instead of opinion to provide for the possibility that the auditor may not be able to express an opinion.

As we are very much in favour of the principle-based approach we encourage the IAASB to identify fundamental principles underlying an ISA audit. We do believe that only if a professional requirement is linked to one of the fundamental principles that requirement can be mandatory.

We support the retention of the basic principles as currently included as black lettered paragraphs. It is, however, the retention of the grey lettered paragraphs that will support the auditor’s exercise of professional judgment. We do not, therefore, support the separate identification of ‘fundamental principles’.

Before being able to answer this question the IAASB needs to decide who its primary audience is. Most of the requests from practitioners have not been for statements of principles but rather for guidance on how to apply the standards. The practical benefits of identifying a set of fundamental principles are mainly in the area of communicating to non-practitioners, and if these are not the IAASB’s main audience then one has to ask what the benefits to the IAASB will be.

When the United Kingdom introduced its first auditing standards it had a general principles based standard in the form of “The Auditors Operational Standard”.

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Subsequently the United Kingdom moved towards the style and format adopted by the IAASB and the absence of a general principles standard does not seem to have been missed in the United Kingdom. Furthermore, when the IAASB has tried to incorporate in its auditing standards some of the material in its International Framework for Assurance Engagements (the framework) it has found it difficult to do so. This calls into question the usefulness of such a set of principles and also raises the question of how the fundamental principles would relate to the framework.

Although I believe there is much to be gained from the development of a set of fundamental principles I am not sure that auditing standard setting has yet reached the point when the benefits of doing so outweigh the opportunity cost that developing principles will incur.

Q9. Should the establishment of such principles be considered a high, medium, or low priority of the IAASB for the immediate future?

AASB-CICA  We consider that the establishment of such principles should not be a high priority of the IAASB for the immediate future.

ACAG  The establishment of fundamental principles underlying an ISA audit should be a high priority for the IAASB, as the content of these principles identified will ideally interact with the IAASB’s other projects and future directions of ISAs.

APB  The establishment of such principles be considered the highest priority! APB believes that unless it first develops the framework to be supported by ISAs there is a real danger that IAASB will, by building from the ‘bottom-up’, create an unacceptably complex set of auditing standards which will have a negative impact on audit quality.

AUASB  The AUASB recommends this matter be given a lower priority, yet, we appreciate it is related to the clarity project. This is because several of the “fundamental principles underlying an ISA audit” are likely to be reflected in the ethical requirements of various accounting bodies, including Australia. We believe it is more beneficial to the profession to complete projects that improve the quality of audits and enhance communication between auditors and users of financial reports, rather than dedicate resources to matters that are largely dealt with in other arenas.

Basel  Given our response to question 8 above, we would regard this as a high to medium priority, although we would not want it to slow down the major thrust of the clarity project.

CEBS  … we would regard this as a high priority

CIPFA  Establishing such principles should be high priority and indeed should be a prerequisite for any restructuring.

CNCC-CSOE  A high priority.
Comments Received on Clarity Consultation Paper

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<th>Respondent</th>
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<tr>
<td>CPA Aus</td>
<td>CPA Australia would prefer that restructuring auditing standards take priority. We consider this project to be low priority particularly from an Australian perspective, as we are keen to have auditing standards as disallowable instruments and see that the clarity project is instrumental to this.</td>
</tr>
<tr>
<td>DnR</td>
<td>The establishment of such principles should be considered a high priority.</td>
</tr>
<tr>
<td>DT</td>
<td>Since the entire restructuring process needs to flow from the identification of the “fundamental principles underlying an ISA audit” the establishment of such principles should be considered a high priority.</td>
</tr>
<tr>
<td>EC</td>
<td>Developing clear cut policy and drafting standards with a principle based approach should remain high priorities. The proposal for a modernised Directive on statutory audit stresses the importance of ethical professional behaviours. We fully subscribe to the idea of cross-cutting fundamental principles proposed by the Board. Though an important exercise, we would rate this at lower priority rank at this stage. The Board should rather focus for now on other priorities such as implementing the Clarity project.</td>
</tr>
<tr>
<td>EY</td>
<td>The debate as to whether a framework should be developed, to assist auditors in using professional judgement in following an ISA’s requirements, is high priority, because it affects the other issues raised in the Policy Statement and Consultation Paper.</td>
</tr>
<tr>
<td>FEE</td>
<td>We believe that the priority to establish fundamental principles underlying an ISA audit is high, because it will help identify the “shall” requirements of ISAs and where further professional requirements in the form of objectives need to be identified to explain how the high level principles should be applied.</td>
</tr>
<tr>
<td>GT</td>
<td>As we do not believe the development of such principles to be critical (see our response to questions 8 and 10), their establishment should be considered a low priority, especially in light of the other proposed revisions and potential restructuring considerations and current IAASB projects.</td>
</tr>
<tr>
<td>H3C</td>
<td>No priority.</td>
</tr>
<tr>
<td>ICAEW</td>
<td>We strongly believe that the establishment of such principles is an essential pre-requisite for the adoption of both the proposed Policy Statement and any restructuring.</td>
</tr>
<tr>
<td>ICAI</td>
<td>The establishment of fundamental principles should be a high priority for the IAASB in the immediate future. Once established all ongoing projects should be reassessed in light of the defined fundamental principles.</td>
</tr>
<tr>
<td>ICANZ</td>
<td>We believe that the IAASB needs to take a balanced approach to determining its priorities. Establishing the fundamental principles of audit is unlikely to have a significant affect on audit practice in the short term. However, focussing only those projects...</td>
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that must be completed in the short term will crowd out longer term considerations and may adversely affect achievement of the IAASB’s overall objectives. We therefore believe that developing fundamental principles of audit should be given a medium priority and that the IAASB should devote some time at each meeting to plan and progress development of the fundamental principles of audit.

ICAP The establishment of principles should be considered as a high priority project.

ICPAK It should be considered high priority.

IDW The following answer is predicted upon the answer to question 8 above that “fundamental principles of an ISA audit” is to be equated with the reasons underpinning particular audit objectives.

We consider it necessary for the IAASB to create a solid foundation for audits. Current standards have evolved based on best or normal practice, rather than having been based on solid reasoning and empirical evidence. This has led to continuing debate within the IAASB and with regulators on what audits are supposed to achieve and how. The lack of a solid foundation for audits becomes particularly apparent when the audit paradigm is applied to different kinds of engagements (sustainability reporting, prospective financial information, internal control, etc.), as the difficulties that the IAPC and IAASB had in developing an assurance framework attests. Since pressure from regulators on auditing standards setters has increased, we believe it to be imperative that auditing standards setters are able to take well-reasoned positions in their standards that stand the test of time. This would only occur if standards setters were able to justify audit objectives, requirements and presumptions with a solid foundation.

For these reasons, we regard this as a very high priority project. However, the proper development of such foundation is not a quick fix, so we believe that while the project ought to have a high priority and ought to be started immediately, we do not believe that initial results will be achieved for at least three or four years. Furthermore, such a project will be largely task force-based in the initial stages and hence will not consume undue IAASB resources in the initial stages.

IOSCO Please refer to our answers to questions 8 and 10 in this section.

IRE The IRE considers this to be a high priority.

ACCA Subject to the completion of some projects that are already in progress, we believe that IAASB should give this project the highest priority. The subsequent restructuring of ISA will also enable a ‘think small first’ approach to be implemented.
### Respondent Comment

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<tr>
<td>JICPA</td>
<td>Fundamental Principles are a higher level of principle and, accordingly, identifying them would require excessive time. Because of the current schedule and resource constraint of the IAASB, the establishment of such principles is not a high priority of the IAASB for the immediate future.</td>
</tr>
<tr>
<td>NIVRA</td>
<td>In our view the establishment of such principles should be considered a high priority and for reasons that it will influence all standards this should be finalised before starting redrafting and/or restructuring the ISAs.</td>
</tr>
<tr>
<td>PwC</td>
<td>We believe that high priority should be place on developing the conceptual framework and agreed structure for individual ISAs. However, we believe that the new model could be implemented in existing ISAs as they are revised over time.</td>
</tr>
<tr>
<td>RR</td>
<td>If the IAASB decides to develop a set of fundamental principles then this should certainly have a greater priority than restructuring the standards. However, I do not believe that the development of such principles would be possible without considerable outside assistance in the form of research and analysis. The IAASB would almost certainly have to pay for this assistance, which would curtail its other activities.</td>
</tr>
<tr>
<td>AASB-CICA</td>
<td>We did not identify any other fundamental principles that should be added to the list or any on the list that are inappropriate.</td>
</tr>
<tr>
<td>ACAG</td>
<td>The proposed fundamental principles appear to be complete and appropriate, except to the extent that the contemporary issue of auditor’s independence has not been adequately addressed. Further, there does appear to be clear and explicit linkage between risks identified from an auditor’s knowledge of the client and the approach to be taken during the audit. This is clearly articulated in ISA 315 Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement and ISA 330 The Auditor’s Procedures In Response to Assessed Risks. A further suggested principle is that of Public Interest espoused in CPA Australia’s Code of Professional Conduct B.1: “Members must at all times safeguard the interests of their clients and employers provided that they do not conflict with the duties and loyalties owed to the community and its law.”</td>
</tr>
<tr>
<td>APB</td>
<td>APB believes that material contained in the Consultation Paper is a good start to the development of the fundamental principles although inevitably developmental effort will be needed to refine it before it becomes universally acceptable. APB would be pleased to be involved in this effort.</td>
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Respondent  Respondent Comment

Basel  Though the proposed fundamental principles are appropriate to some extent, they are a mix of operating procedures and principles of professional behaviour which makes it unclear whether they are all of the same equivalent status. Fundamentally, they also do not address the objective of an audit, which should drive the principles that follow. There needs to be a clearer linkage back to the objectives of an audit such that the hierarchy of principles is clear. An analogy could be made with the IASB Framework where there are objectives of financial statements, qualities of such which follow from the objectives and then elements of the financial statements which follow from the qualities of financial statements.

CEBS  Though the proposed fundamental principles are appropriate to some extent, and it is difficult to disagree with them individually, we believe that a more fundamental approach is necessary which considers the objective of an audit and the principles that therefore follow.

A guide to how this could be dealt with is the approach followed in the IASB Framework. The IASB Framework details the objectives of financial statements, the desirable qualities that follow from these objectives, and the elements of financial statements that follow from the qualities of financial statements.

CIPFA  We believe the proposed principles are largely complete and appropriate but they need to secure a very high degree of international acceptance before they can form the basis for the future development of ISAs. We therefore consider that there should be a separate consultation on the fundamental principles and that no significant changes to existing ISAs should be brought into effect until the results of such consultation are known.

CNCC-CSOE  The French Institutes consider this to be a good starting point. Another one might be added “to comply with the letter and the spirit of the law”.

CPA Aus  At this stage the ‘fundamental principles underlying an ISA audit’ are appropriate.

DnR  Our immediate reaction is that they seem adequate and relevant but need further considen and debate by the profession.

DT  The proposed fundamental principles appear appropriate.

EY  In view of our response to question 8, we believe that the development of fundamental principles should be subjected to a rigorous debate and consultation process.

FEE  FEE is of the opinion that professional requirements in auditing and assurance standards should be based on principles as already explained in further detail in our response to question 1 on the Proposed Consultation Paper.

We have some doubts about the appropriateness of the process for identifying the fundamental principles in the paper; their identification should be based on systematic analysis and the development of a conceptual framework. We recommend further study and issue of a separate exposure draft to stimulate further
debate.

In relation to the fundamental principles in paragraph 42 of the Proposed Consultation Paper, we suggest that the differences between (i) Rigor and Scepticism, (k) Evidence and (l) Documentation are not clear.

We also note that some of the existing list are already supported by individual ISAs or other standards or by material within ISAs, and some are not; we question the logic in the different approaches currently adopted. This situation suggests to us that the clarity of ISAs would be served by further work on the principles, including the extent to which they should be supported by individual ISAs.

GT

Without an exhaustive review of the proposed fundamental principles, they appear to be adequate and appropriate for an audit engagement. The method by which they have been derived also seems appropriate. That said, however, we concur with the IAASB that significant resources may be necessary to ensure their proper development and also question whether such resources would “…better serve the public interest if applied to the development of high quality ISAs.” (Also see our response to question 8 above.)

ICAEW

We strongly believe that the proposed fundamental principles require international consensus. This may take time to achieve. The development of fundamental principles of auditing such as these will have far-reaching consequences for auditing standard-setting for many years to come. The experience of other standard-setters in this regard behoves caution.

We believe that a separate consultation on the fundamental principles should be undertaken.

ICAI

The proposed fundamental principles are complete. We consider that as a set of fundamental principles the suggested principles are excessive and too detailed. A fundamental set of principles should not number more than six to eight elements, not the fifteen included in the proposed fundamental principles.

The principles should be shortened and made more principled rather than processed. A number of the items expressed as fundamental principles are integrated into other topics and it is therefore unnecessary to express these as fundamental principles.

- “Rigor”, Fundamental element of a number of other principles expressed in the document (Professional Behaviour, Knowledge of the Entity, Evidence)
- “Documentation”, It would be more appropriate to incorporate documentation within the fundamental principle of “Evident”.
- “Association”, Association is already implicit in professional behaviour.

In addition, responsibility, communication and association should be combined into a single principle — “Reporting the auditors findings”.

ICANZ

The fundamental principles appear to be complete. However we consider that these are part of a bigger issue. If the IAASB decides to consider the fundamental
### Respondent Comment

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<tbody>
<tr>
<td>ICAP</td>
<td>The proposed fundamental principles appear to be complete and appropriate.</td>
</tr>
<tr>
<td>ICPAK</td>
<td>Yes</td>
</tr>
<tr>
<td>IDW</td>
<td>We are very concerned about the proposed fundamental principles and the way they have been derived, and are even more concerned that the IAASB would even venture to ask the question whether they might be complete and appropriate.</td>
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**Method of derivation**

Based upon the method by which they appear to have been derived (review of current proposed Code of Ethics, IAASB literature and perhaps input from a standards setter), we are under the impression that the IAASB may not approaching the issue of “principles-based standards” seriously – that is, it seems to us, in view of the new fraud and audit risk standards, that the IAASB pays lip-service to this issue, but ultimately, the IAASB seems to be more concerned about developing more rules and guidance quickly than ensuring that its standards are principles-based. It appears to us as if the IAASB is in a hurry to set some fundamental principles now – irrespective of their quality – so that it can “get on” with the “real work” of issuing more rules and guidance.

In our view, principles-based standards implies the application of a principles-based standard setting process. This means that a systematic approach is taken when addressing auditing issues such that individual auditing issues are not dealt with in isolation, but are addressed as part of a consistently applied conceptual approach that represents a systematic whole. Such a principles-based standard setting approach also implies that the auditing principles identified in the auditing standards are derived in a consistent fashion from a common understanding of the underlying framework. It is particularly important the auditing principles developed by the standard setting process are consistent with the underlying framework and with one another and create a systematic whole. This implies that major auditing issues currently only covered by general practice or auditing textbooks or literature be addressed by projects in a systematic manner. Furthermore, it also means that new projects that deal with pressing issues, and their results, are seamlessly incorporated into and are consistent with the underlying framework and the overall structure of existing principles. In rare circumstances, when practical considerations force departures from the underlying conceptual framework, these departures should be explicitly identified as practical considerations that do not impact upon the validity of the underlying framework.

Overall, the IAASB does not appear to have applied a principles-based approach to developing these “fundamental principles”. The same applies to the Ethics...
Respondent  Respondent Comment

Committee, which does not appear to have applied a principles-based approach to deriving the Fundamental Principles of Professional Ethics included in the Fundamental Principles of Auditing. We would also like to point out that we have some serious concerns with the proposed Code of Ethics in this respect that we had addressed in our two comment letters to the Ethics Committee dated November 27, 2003 and December 3, 2004.

Completeness and appropriateness of the principles

The list of “Fundamental Principles Underlying the Objective of an ISA Audit” in the Consultation Paper appears to represent a list of topics covered by the ISAs rather than a reasoned foundation resulting from the application of a systematic approach. As we pointed out previously, the current list appears to be based solely on current auditing practice as opposed to being based on a proper conceptual foundation. We could probably write at least a few pages on why the list as such is neither appropriate nor complete and at least half a page per principle on problems we can identify with each of the principles, but this comment letter may not be the appropriate place to do this. Rather we will provide you with a few examples of some of the issues we have identified in a cursory reading without systematic analysis that may provide you with an indication of the depth of our discomfort with the current list and its contents:

- In line with our comment letters to the Ethics Committee, we are uncomfortable with the thought that the auditor “shall comply” with the fundamental ethical principles without a proper treatment of the fact that the threshold for compliance with each ethical principle varies depending upon the engagement (e.g., the level of independence required for objectivity may vary) and that there are conflicts among these principles that may require trade offs
- The relationship between the principles and the objective of an audit is unclear
- The principles do not recognize the relationship between the audit environment and audit systems and processes
- The relationship between the various parties to the engagement and the relationship among their respective responsibilities are not addressed
- We question whether “rigor” and “scepticism” are in fact related concepts that should be treated as a single principle
- The relationship between the ethical principles and their role in underpinning particular fundamental principles underlying the objective of an ISA audit has not been explored; in particular, the relationship between the ethical principles and “responsibility” and “association” are unclear
- The concepts of “reasonable” and “limited” assurance have not been addressed, nor their relationship to sufficient appropriate evidence and audit risk described
- The concept of materiality and the criteria by which audits are performed (the financial reporting framework) are not addressed

IOSCO

As the principles shown are very general, we are not convinced that they would help inform the IAASB’s decisions about what should be said in a particular standard or assist the auditor in exercising professional judgment as to what to do in a specific case. Therefore, we do not see the listed fundamental principles as

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providing a complete and appropriate foundation for auditing standards. As to what matters should be considered in the development of fundamental principles, we believe this question is of a nature that would need to involve consideration beyond the scope of being presented as one topic in a Consultation Paper on clarity. To develop a full response to questions on fundamental principles would require considerably more discussion than is possible in the time constraints provided by the comment period of this Exposure Draft. Such a question could be more appropriately addressed in the context of a discussion paper in a separate project.

If the IAASB determines that it wishes to proceed with a project to develop "fundamental principles," we believe there will be much work ahead to identify principles that are not only sound, but also are useful in providing specific guidance to the Board and to auditors. Broad generalities such as presented in the Consultation Paper are fine as background, but they do not provide an adequate foundation for auditing standards. Our members would not object to work designed to create an overall framework of fundamental principles; in fact, many members believe such a project would be useful in clarifying criteria for establishing audit requirements. We believe, however, that any project to develop fundamental principles should be handled separately from the clarity project.

IRE

The Consultation paper proposes the term ‘fundamental principles’. The issue on the terminology is the inconsistency in wording:

- The International Framework for Assurance Engagements contains the wording ‘concepts in this Framework’ (paragraph 2) and ‘principles of this Framework’ (paragraph 16), but also introduces the term ‘fundamental ethical principals’ based on the new Parts A and B of the Code of Ethics (cf. paragraphs 15 and 16 of the Code), and the ‘independence’ principle doesn’t appear as a fundamental ethical principle. We also refer to the new ISA-200 (paragraph 4, 5 and 6; oktober 2003 version) in which is stated that ‘General principles of an audit’ are the ‘ethical principles’ (former version of the current ‘fundamental ethical principles’ within the IFAC Code of Ethics), including ‘independence’ (paragraph 4);

- the principles according to which the auditor should conduct an audit in accordance with ISAs (the current ‘basic principles and essential procedures’ (paragraph 5);

- an attitude of professional scepticism (paragraph 6).

The proposed list of ‘fundamental principles’ in the consultation paper comprises 10 items,

- with no reference to the proposed ‘fundamental ethical principles’, nor to independence;

- excluding professional scepticism;

- including the actual ‘basis principles and essential procedures’.

If there ought to be ‘fundamental principles’ (indicated by a ‘shall’ statement in the consultation paper), they should be derived from the ‘bold paragraphs’ in the...
existing ISAs. In the opinion of our Institute, careful investigation needs to be done if the principles of the proposed list are (not) already incorporated into a corresponding bold paragraph of the ISAs.

The IRE wants to suggest the following very few ‘fundamental’ principles for an audit of financial statements:

- ‘knowledge of the entity’;
- ‘evidence’;
- ‘the use of professional judgment’;
- ‘reporting’.

The candidate-‘fundamental principle’ named as ‘Rigor and Scepticism’ is already covered in ISA-200, paragraph 6, and doesn’t need to be covered twice. All the other candidates from the proposed list are either ethical principles by nature (responsibility, association), or are derived principles:

- ‘quality control’ also follows from other engagements (not only for audits), and should be covered at this higher level;
- ‘documentation’ (covered by ISA-230) indeed is important to the quality of the audit, but in fact it constitutes a principle derived from the fundamental principle ‘evidence’;
- ‘communication’ is important, but needn’t be a ‘fundamental principle’.

ACCA

The Consultation Paper explains that ‘the following “fundamental principles underlying an ISA audit” are based on the preliminary view of the IAASB and may not represent the final set of principles that ultimately might be adopted’. IAASB has offered a first suggestion based on an analysis of existing pronouncements. It is clear that the process of identifying fundamental principles is at a very early stage. We strongly suggest that, because of the importance of this matter, it requires a separate and rigorous process of stakeholder engagement.

JICPA

Fundamental Principles are a high level of principle that require a sufficient study to identify them. Without sufficient study, it is difficult to determine whether or not the proposed fundamental principles are complete and appropriate.

NIVRA

We believe that the development of fundamental principles for assurance engagements should be subjected to a proper due process, including exposure to the public.
PAAB  We do not support the establishment of a list of fundamental principles. Fundamental concepts are listed in the Professional Code of Ethics. We believe that the business environment is too complex to identify specific fundamental principles. Furthermore, by attempting to define these principles we are moving towards a rule-based approach to Standards which is not supported.

PwC  Overall, we support the introduction of “fundamental principles”. We do not, however, believe that the approach proposed in the Consultation Paper is right way to develop such principles.

In our covering letter, we set out a possible model for objectives-based auditing standards that includes a comprehensive conceptual framework. That framework would include underlying auditing concepts as well as the concepts describing the audit process and various aspects of it (such as concepts underlying obtaining evidence). Such a conceptual framework would be important because it would provide an appropriate mindset for drafting requirements and a means of ensuring that the development of the ISAs is based on a consistent approach. The framework can also serve as a context for the application of professional judgement in meeting the requirements in the ISAs.

RR  I believe that any set of fundamental principles should require an auditor to consider whether it is appropriate for him to undertake the engagement in the first place. This would relate not only to ethical matters, but also to the need for the auditor to consider his own competence and the likelihood of his being able to obtain sufficient evidence to be able to form an opinion.

The enunciation of the quality control principle is extremely vague and as written I am not sure whether it is a principal at all. The principle of communication with both management and those charged with governance is not, in my view a fundamental principle underlying the objective of an ISA audit. Such communications are extremely important by-products of the audit, but the objective of the audit is the expression of an opinion on the financial statements not the production of useful information to the entity itself.

The association principle is an ethical principle. Again, it has little to do with the objective of the audit itself and seems to be a backdoor way of introducing an ethical principle that IFAC’s Ethics Committee has not decided to introduce.

Q11. Do respondents believe that the fundamental principles should be expanded to serve as a basis for all assurance engagements?

AASB-CICA  We believe that the fundamental principles would be extremely useful as a basis for all assurance engagements because such engagements, other than audits of financial statements, are less well established and such principles will be useful to the IAASB as it develops standards for such engagements.
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<tr>
<td>ACAG</td>
<td>Yes, the fundamental principles should be expanded. If the fundamental principles are expanded for all assurance engagements, care needs to be taken to ensure that terms relating to the extent of assurance provided by the engagement, such as audit and audit opinion, are used appropriately.</td>
</tr>
<tr>
<td>APB</td>
<td>No. APB believes that audit should be the main priority. Until there is a much clearer view as to what ‘assurance engagements’ are and whether there is a significant demand for them, it seems inappropriate to complicate the development of the fundamental principles.</td>
</tr>
<tr>
<td>AUASB</td>
<td>To the extent appropriate, the AUASB strongly supports this initiative.</td>
</tr>
<tr>
<td>Basel</td>
<td>It would seem more appropriate to focus on audit for the moment where there is much more concern given recent events.</td>
</tr>
<tr>
<td>CEBS</td>
<td>Given the concern over recent corporate failures, it would seem more appropriate to focus on audit rather than all assurance engagements.</td>
</tr>
<tr>
<td>CIPFA</td>
<td>We are not at all sure that the same principles framework can be used for both audit and other assurance engagements. However, this is precisely the kind of question that needs to be addressed during a consultation on fundamental principles.</td>
</tr>
<tr>
<td>CNCC-CSOE</td>
<td>Priority should be given to audit.</td>
</tr>
<tr>
<td>CPA Aus</td>
<td>Yes. Auditing standards are more effectively applied within an overall context than on a standard by standard basis.</td>
</tr>
<tr>
<td>DnR</td>
<td>Yes</td>
</tr>
<tr>
<td>DT</td>
<td>We believe that audit should be given priority. In light of the difficulties encountered in establishing the International Framework for Assurance Engagements and the complexity of the matter, we feel that expanding fundamental principles to serve as a basis for all assurance engagements would inappropriately complicate and delay their establishment.</td>
</tr>
<tr>
<td>EC</td>
<td>We support application at least to statutory audits.</td>
</tr>
<tr>
<td>EY</td>
<td>If a framework to assist auditors in using their professional judgement is developed, it should be expanded to serve as a basis for all assurance engagements.</td>
</tr>
<tr>
<td>FEE</td>
<td>As audit and assurance engagements have many aspects in common and are both based on the International Framework for Assurance Engagements, as explained in paragraph 38, we believe that the fundamental principles should as far as possible serve as a basis for all assurance engagements.</td>
</tr>
<tr>
<td>Respondent</td>
<td>Respondent Comment</td>
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</tr>
<tr>
<td>GT</td>
<td>The concept of “fundamental principles” would equally apply to audits as well as all other assurance engagements. Accordingly, if such principles were to be developed, they should be identified and communicated for all assurance engagements. However, the fundamental principles may differ depending on the type of engagement and therefore, would need to be carefully drafted to equally apply. It may be necessary to tailor certain fundamental principles underlying the objective of the engagement (e.g., knowledge of the entity or subject matter) to the various types of assurance engagements.</td>
</tr>
<tr>
<td>ICAEW</td>
<td>We believe that this question can only be answered in the context of a full consultation on fundamental principles.</td>
</tr>
<tr>
<td>ICAI</td>
<td>No the fundamental principles should not be expanded as indicated in the above answer, but should be rephrased to cover all assurance engagements.</td>
</tr>
<tr>
<td>ICANZ</td>
<td>Yes, the fundamental principles should be expanded to serve as a basis for all assurance engagements. Such principles apply equally to providing assurance over all subject matter, including the audit of financial statements. This emphasises the importance of considering at the same time all pronouncements that comprise the assurance framework and establish fundamental principles. The existing framework in New Zealand applies fundamental principles to all assurance engagements (including the audit of financial statements). In New Zealand the current definition of an “audit” includes all engagements in which the auditor provides a positive opinion over a matter of accountability. This approach has worked very well and avoids the need to develop a separate series of audit standards for subject matters other than financial statements.</td>
</tr>
<tr>
<td>ICAP</td>
<td>No, expanding the fundamental principles to all assurance engagements would affect the specificity of the principles and may impair the objective of establishing them at all. Issuing separate principles for other assurance engagements may be considered as an alternative to the above suggestion.</td>
</tr>
<tr>
<td>IPCAK</td>
<td>Yes</td>
</tr>
<tr>
<td>IDW</td>
<td>Any fundamental principles that apply generally to assurance engagements also ought to apply to audits, since audits are assurance engagements. Consequently, the fundamental principles should be expanded to serve as a basis for all assurance engagements. However, this does not mean that there may not be a few additional principles that apply only to audits.</td>
</tr>
<tr>
<td>IRE</td>
<td>The IRE believes that careful investigation needs to be done on the so-called ‘fundamental principles’ in the case of audits, as well as in the case of other engagements. Depending on the outcome of such investigation, suggestions can be formulated.</td>
</tr>
<tr>
<td>IOSCO</td>
<td>As a result of the views expressed in our response to question 10 above, we have not at this time attempted to form a view as to whether the principles could or should be expanded to serve as a basis for all assurance engagements.</td>
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## Respondent Comment

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<tr>
<th>Respondent</th>
<th>Comment</th>
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<tr>
<td>ACCA</td>
<td>This question should be answered as part of the process to derive the fundamental principles underlying an audit in accordance with ISAs.</td>
</tr>
<tr>
<td>JICPA</td>
<td>A discussion about assurance engagement would be extended. Therefore, we believe that if the discussion about the basic principles would cover all assurance engagement, it would be difficult to conclude the discussion. Also, we do not agree that the IAASB should resume discussion about assurance engagements because the effect of the recently issued framework for assurance engagement on the practice is not apparent.</td>
</tr>
<tr>
<td>NIVRA</td>
<td>As long we have issued an assurance framework we should also issue fundamental principles as a basis for all assurance services.</td>
</tr>
<tr>
<td>PwC</td>
<td>The primary focus of this consultation paper is on auditing standards and retaining the focus on audit may be a practical way forward.</td>
</tr>
<tr>
<td>RR</td>
<td>I believe that the fundamental principles should serve as a basis for all assurance engagements. Indeed, it seems to me that if a particular principle cannot serve as a basis for all assurance engagements and it cannot be fundamental.</td>
</tr>
<tr>
<td>AASB-CICA</td>
<td>We agree with the proposed authority for the fundamental principles. However, we believe that the IAASB should consider whether there needs to be guidance provided in the admittedly unlikely event that existing specific professional requirements conflict with the fundamental principles, so that the auditor knows which take priority.</td>
</tr>
<tr>
<td>ACAG</td>
<td>The proposed authority for the proposed fundamental principles is appropriate.</td>
</tr>
<tr>
<td>APB</td>
<td>Careful consideration will need to be given to how the authority is described but in APB’s view if, the fundamental principles are to help avert a ‘rules based mindset from developing they must have authority.</td>
</tr>
<tr>
<td>AUASB</td>
<td>We support mandatory compliance with the fundamental principles</td>
</tr>
<tr>
<td>Basel</td>
<td>No. The framework or set of fundamental principles should be positioned within a separate document with sufficient authority, e.g. a document of a higher authority than a standard.</td>
</tr>
<tr>
<td>CEBS</td>
<td>No. The framework or set of fundamental principles should be positioned within a separate document with sufficient authority, e.g. a document of a higher</td>
</tr>
</tbody>
</table>

Q12. Do respondents agree with the proposed authority to be afforded the fundamental principles?
authority than an ISA.

CIPFA If the statement of fundamental principles is to have any value, it must have at least as much authority as an individual ISA. Therefore, the statement should be included in an existing ISA (ISA 200 has been suggested) or form a separate ISA in itself.

CNCC-CSOE It is said in the consultation paper that the auditor shall comply with the fundamental principles of an ISA audit. It would be difficult not to agree with such a statement. However, the French Institutes consider that the fundamental principles should be embodied in a framework which would define what the professional requirements are rather than being something the auditor has to comply directly with.

CPA Aus As these principles are already found in most auditing standards, we do not envisage a problem in codifying the fundamental principles.

DnR All ISAs must be in conformity with the fundamental principles. In absence of professior requirements set out in an ISA, the auditor should base his judgement on the fundamental principles.

DT We do agree.

EC We agree. Fundamental principles governing professional behaviour, including those derived from the Code of Ethics, should have the appropriate – highest – authority.

EY We agree that, if fundamental principles are developed, they should have an appropriate level of authority. Consideration should be given to incorporating such fundamental principles with ISA 200 Objective and General Principles Governing an Audit of Financial Statements, or, if they apply to all assurance engagements, within the Assurance Framework.

FEE We agree that the fundamental principles should be afforded appropriate authority and that such authority could be on the level of a standard; as indicated earlier they can be described as “shall” requirements.

We believe that fundamental principles form the framework for the more specific individual ISAs and that all aspects of the standards should be considered when performing an audit. However, as principles are necessarily at a high level, principles have to be supported by more detailed objectives also described as “should” professional requirements in order that the principles can be applied by the auditor. Paragraph 41 in the Proposed Consultation Paper would benefit from greater clarity on the proposed authority of the fundamental principles and their relevance to performing an audit.
## Respondent Comment

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<tr>
<th>Respondent</th>
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<tr>
<td>GT</td>
<td>As the fundamental principles would set the foundation upon which all other ISAs are based, we believe that these principles would be of such importance that they must be adhered to by the professional accountant without departure or override. Accordingly, we agree with the proposed authority to be afforded to such principles, as discussed in paragraphs 40 and 41 of the Consultation Paper.</td>
</tr>
<tr>
<td>ICAEW</td>
<td>We believe that this question can only be answered in the context of a full consultation on fundamental principles.</td>
</tr>
<tr>
<td>ICAI</td>
<td>We agree with the proposed authority to be afforded the fundamental principles subject to the principles being modified in accordance with the comments above.</td>
</tr>
<tr>
<td>ICANZ</td>
<td>We regard the proposed authority to be afforded to the fundamental principles as appropriate. These principles should govern the development of audit and assurance standards. Professional accountants conducting such engagements should be required to comply with the fundamental principles.</td>
</tr>
<tr>
<td>ICAP</td>
<td>Yes</td>
</tr>
<tr>
<td>ICPAK</td>
<td>Yes</td>
</tr>
<tr>
<td>IDW</td>
<td>If the fundamental principles comprise the essential qualities underpinning every ISA audit, then, by definition, without these qualities, the audit does not constitute an ISA audit and therefore non-compliance with the principles means non-compliance with the ISAs. However, as noted in our answer to question 10, we have some concern about what is meant by the notion of “compliance” with principles, since there may be different thresholds of compliance depending upon the nature of the engagement. Hence the level of authority is inextricably bound to the nature of the principles that must be applied. In this sense, we suggest that an auditor must “apply” these principles, rather than “comply” with them.</td>
</tr>
<tr>
<td>IOSCO</td>
<td>The level of authority (i.e., mandatory) is appropriate. However, as we have stated earlier, we believe the principles are so general in nature that they would not really provide guidance for determining audit requirements.</td>
</tr>
<tr>
<td>IRE</td>
<td>Undoubtedly, the list displayed in the consultation paper is far too long.</td>
</tr>
<tr>
<td>ACCA</td>
<td>There are issues relating to the terminology that will have to be determined: for example, whether the fundamental principles have to be ‘observed’, as is the case for the IFAC Code of Ethics, or ‘applied’ or whether auditors have to ‘comply’. The terminology, the proposed authority and the role of fundamental principles are all issues that should be addressed as part of the process to derive the fundamental principles underlying an audit in accordance with ISAs.</td>
</tr>
</tbody>
</table>
NIVRA  We agree that the fundamental principles should have an appropriate level of authority and we suggest incorporating the fundamental principles in the Assurance Framework.

PwC  Overall we would agree with the authority afforded the fundamental principles—as with the ethical principles, they should always be observed by a professional accountant when performing the audit but do not necessarily dictate the particular actions to achieve them.

RR  I agree with the authority proposed to be afforded to the fundamental principles. However, by giving them the authority of a “shall” statement I can foresee that the IAASB will be asked to provide guidance to help auditors assess matters such as sufficiency and significance.

**Existing Practice Statements and their Authority**

Q13. Do respondents believe the present description of the authority of Practice Statements to be clear and understandable? If so, do respondents agree with the authority that is afforded them? If not, what should be the authority of Practice Statements?

AASB-CICA  We believe the present description and authority of Practice Statements is clear and understandable. However, we believe that their authority should be amended to require that a professional accountant who does not consider and apply the guidance included in a relevant Practice Statement should consider and document how he or she complied with the professional requirements addressed by the Practice Statement. This would make the documentation obligation with respect to Practice Statements consistent with that for presumptive requirements.

ACAG  The present description of the authority of Practice Statements is clear and understandable. These documents have an appropriate level of authority afforded to them.

APB  The APB considers that the guidance in the IAPSs is an extension of, and has the same status as, the ‘guidance’ material contained within the ISAs themselves. If the IAASB decides to ‘clarify’ the use of the present tense in the ISA guidance it seems logical that the same exercise would need to be undertaken on IAPSs. The likelihood however is that this will further add to the ‘inflation’ of requirements and exacerbate APB’s concerns regarding the proposals of the Exposure Draft.

AUASB  The AUASB supports retention of both the present description and authority of IAPSs.

Basel  We have some doubts as to maintaining Practice Statements which deal with particular issues such as derivatives. It has already been argued that the derivatives Practice Statement should be incorporated in the standard that deals with auditing of fair values.
The Practice Statements that provide detailed guidance on IT and those that seek to interpret the application of standards across groups of auditors are useful. However, there is a difference between providing guidance and interpreting the application of standards. The Board should explore this difference further.

Approval of a Practice Statement by simple majority could be sufficient.

CEBS We believe that the present description of the authority of Practice Statements is reasonable. However, we do have some doubts about the current coverage of Practice Statements – see Q15.

CIPFA The current status of Practice Statements is fairly clear: They are essentially optional and are frequently ignored. If they are to be retained, their status should be upgraded to something akin to that of the Practice Notes and Bulletins used in the UK. These provide guidance on specific sectors, specific circumstances or new and emerging issues and are regarded as best practice without being mandatory in all circumstances. If explanatory material from ISAs were also to be included in Practice Statements in accordance with our preference stated in (6) above such an upgraded status would be appropriate. In any event, Practice Statements are not the place to enunciate professional requirements which we believe should be confined to ISAs.

CNCC-CSOE The present description of practice statements is relatively clear in the present context. However, if the restructuring takes place along the lines of option A, it would need to be redefined in order to provide a vehicle for the explanatory material previously included in the ISAs.

DnR We agree that the practice statements should contain additional practical guidance support the ISAs, and no additional requirements. Their contents should not be required to be followed in any case. See our comments to questions 2 to 5 above.

DT We do as long as it relates to present IAPSs or IAPSs remaining after the restructuring under option B. Should option A of the restructuring (which we do not support) be adopted, then the description would have to be amended to include “explanatory guidance to standards”, “industry considerations”, “public sector matters”, and “emerging issues”. Their current authority is similar to that afforded to the explanatory guidance contained in current ISAs and would not need to change. On the other hand, language codification changes (i.e. deletion of “should”s, use of the present tense) would have to be considered as well as reclassifying into ISAs any material that represents essential procedures.

EC The authority to be given to IAPS will depend on their content (which we comment in §2.14). As potential future “users” of IAPSs, we do not support the idea of an expedited approval process following from the fact that IAPS may carry lower authority. In our view, although not meant to contain professional requirements in addition to ISAs, the IAPSs carry some authority deriving directly from the subject that is being dealt with. As mentioned in Articles 2 and 26 of the 8th Directive, the Commission may adopt any “related Statements and Standards”, including IAPS if needed. We favour the solution where IAPS would follow the same due process as ISAs. Absent relevant due process, this might as such be a reason for rejecting the adoption of an IAPS under Article 26(3) of the Directive.
Respondent   Respondent Comment

EY Yes, we consider that the present description is clear and understandable, and we are satisfied with the authority that is afforded them.

FAR The present authority is not very clear. One reason for that is that the present IAPSs cover very different areas seemingly without a common basis for application and use.

FEE Although the theoretical authority of the Practice Statements is explained in the International Standards, FEE has found that in practice, many professional accountants do not have a clear view on the authority of the Practice Statements and their linkage to the other International Standards. Therefore, FEE is not entirely comfortable with the current authority of the Practice Statements.

We refer to our responses to Question 2 of the Proposed Consultation Paper and to our comments on Practice Statements as explained in our main comment on the Proposed Consultation Paper on “status of application material and Practice Statements” for further details.

GT Under the current convention, we believe that the present description of the authority of Practice Statements is clear and understandable. Upon the adoption of the Proposed Policy Statement, it may be necessary to define the Practice Statements as “explanatory material” and to further clarify the documentation requirements, if any, relating to a departure from the guidance therein. In other words, the IAASB may deem it necessary to clarify the “presumptive requirements” in paragraphs 20 and 21 of the Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services.

H3C We are against the increase of explanatory material currently contained in ISAs which would open the gateway to wide interpretations, but are in favour for the promotion of good practices in the development of IAPSs.

Practice Statements should be written in a manner which limits the scope to good practice and clear interpretive guidance, and professional requirements written in a manner which allows the professional to comprehend the mandatory requirements, without the need for presumption.

ICAEW The authority afforded to Practice Statements going forward depends on the manner in which they are to be used, and this in turn depends on their nature and purpose.

The description and authority of Practice Statements is clear and understandable (auditors required to explain compliance with the basic principles and essential procedures in ISAs where they have not considered and applied guidance in IAPSs). However, the authority of IAPSs is seen in some quarters as weak. It is also inconsistent with the authority of explanatory material in ISAs (auditors required to consider the whole text of a standard in order to understand and apply the basic principles and essential procedures). This inconsistency must be addressed if IAPSs (or a certain category thereof) are to be effectively used as used as a repository for essential explanatory material currently in ISAs. If IAPSs are to be used as used as a repository for some essential explanatory material currently in ISAs, we believe that the authority of IAPSs needs to be reinforced. If IAPSs are not to be used as a repository for material currently in ISAs, there is probably no need for a
<table>
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<tr>
<th>Respondent</th>
<th>Respondent Comment</th>
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<tbody>
<tr>
<td>ICAI</td>
<td>The authority afforded to the Practice Statements is clear and understandable. The authority may need to be modified and clarified to some extent if the authority of the ISAs is modified to address the proposal of requirements and presumptive requirements. The authority will need to be refined to ensure that the Practice Statements are not classified as presumptive requirements but as lesser requirements which may need to be explained if challenged, but which would not require documentation. The documentation burden would be too great, especially for small audits, resulting in potential lower audit quality rather than improved audit quality.</td>
</tr>
<tr>
<td>ICANZ</td>
<td>The description and authority of Practice Statements as set out in paragraphs 20 and 21 of the Preface to the International Standards on Quality Control, Auditing Review, Other Assurance and Related Services is adequate in light of the existing structure of ISAs and related guidance. However, we believe a fundamental review of the nature and content of the various guidance pronouncements (including Practice Statements) is required, especially if the IAASB decides to restructure the ISAs.</td>
</tr>
<tr>
<td>ICAP</td>
<td>The existing description of the authority of the Practice Statements is clear and understandable</td>
</tr>
<tr>
<td>ICPAK</td>
<td>Yes</td>
</tr>
<tr>
<td>IDW</td>
<td>We refer to our answer to question 2 in the proposed Policy Statement and to the Appendix to this comment letter. In our view, we believe that, in principle, the level of authority of Practice Statements may need to be revised to our suggestion in relation to “other considerations”: “When applicable to an engagement, a professional accountant should be aware of and consider other considerations (guidance, good practices and examples) contained in International Practice Statements. When the considerations in a Practice Statement applicable to an engagement have not been applied, a professional accountant must be prepared to explain how the objectives of the engagement standard were achieved and the relevant requirements, and the relevant presumptions or their alternatives, applied.” Furthermore, we believe that our suggestion for describing the level of authority for Practice Statements be somewhat clearer and more understandable than that currently applied in the IAASB Preface.</td>
</tr>
<tr>
<td>IOSCO</td>
<td>In general, we are satisfied that the present level of authority for Practice Statements is appropriate. We are concerned, however, that the distinction between what is appropriately placed in a Practice Statement and what is appropriately placed in a Standard is not always clear and understandable. We believe the IAASB should consider whether developing additional criteria for what kind of information should be in each might improve this situation.</td>
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<tr>
<td>Respondent</td>
<td>Respondent Comment</td>
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<tr>
<td>IRE</td>
<td>The IRE believes that the authority of IAPSs needs to be clarified. We kindly refer to our answer to question (1) (cf. supra), and the comments of IAASB made in the wording of option A.</td>
</tr>
<tr>
<td>ACCA</td>
<td>The statement that Practice Statements ‘provide interpretive guidance and practical assistance’ is well understood, but their authority is not clear. There is a requirement that the professional accountant should be prepared to explain how the basic principles and essential procedures in ISAs are applied when IAPSs are not considered. This arguably gives Practice Statements a status of mandatory guidance, but there is scope for confusion over the difference in status between explanatory material in an ISA and a Practice Statement.</td>
</tr>
<tr>
<td>JICPA</td>
<td>We believe that the IAPS is a guideline of the ISA. We agree with the current authority of the IAPS.</td>
</tr>
<tr>
<td>KPMG</td>
<td>[Response to Q13-15] We believe that IAASB needs to carefully reconsider the role and authority of IAPSs as part of its restructuring project, especially if it decides to adopt Option B. IAASB will need to clarify the authority of an Appendix that includes explanatory material vis-à-vis the authority of a Practice Statement.</td>
</tr>
<tr>
<td>NIVRA</td>
<td>We believe the present description of the Practice Statements to be adequate.</td>
</tr>
<tr>
<td>PAAB</td>
<td>We believe that the current status and authority of practice statements should remain. If the authority is not clear, consider clarifying this.</td>
</tr>
<tr>
<td>PwC</td>
<td>We have had no difficulties in understanding the authority of the Practice Statements and believe the present description of the Practice Statements to be adequate. They should not have the authority of standards, but rather should continue to support the standards as guidelines to aid good practice or assist with the practical implementation of the standards.</td>
</tr>
<tr>
<td>RR</td>
<td>I believe that the present description of authority is clear bearing in mind the nature of the current practice statements. However, if the IAASB adopts restructuring option A (moving explanatory material to a separate practice statement) then I do not believe that the authority statement will be clear. This is because under that model practice statements will contain matters that are fundamental to the understanding and application of the ISAs. The requirement place on auditors should therefore be greater than merely an awareness and consideration of practice statements.</td>
</tr>
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**Q14.** Given the existing authority of Practice Statements and their use in providing additional guidance to International Standards, should the IAASB change the style in which Practice Statements are written? To the extent they are derived from professional requirements contained in an International Standard, should Practice Statements enunciate professional requirements?
### Respondent Comment

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<th>Respondent</th>
<th>Comment</th>
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<tbody>
<tr>
<td>AASB-CICA</td>
<td>We do not believe that the IAASB should change the style in which Practice Statements are written. When a Practice Statement is derived from professional requirements in an International Standard, we agree that Practice Statements should explain from which professional requirements the guidance is derived. However, we do not believe that Practice Statements should enunciate direct extensions of professional requirements nor have the same authority as International Standards.</td>
</tr>
<tr>
<td>ACAG</td>
<td>The current style of Practice Statements meets the current objective of providing additional guidance to professional accountants on specific aspects of audits.</td>
</tr>
<tr>
<td>APB</td>
<td>The IAASB should be more circumspect as to what can be achieved by setting international standards. It is a sufficient challenge for IAASB to issue fundamental principles and essential procedures that apply to all audits in all countries. It is not realistic to try to provide guidance that is universally applicable not least because guidance relating to particular industries will need to be extended for national law and regulations (for example IAPS 1004 and 1005). APB believes that IAASB should reconsider whether it should be issuing IAPSs (other than if restructuring was to use them to reclassify the guidance currently contained in ISAs). As explained in the Consultation Paper there is a mixture of material currently contained in the IAPSs, the APB is of the view that much of it is ‘training’ material, which should not be issued by the IAASB (as the standard setting body) but rather by another branch of IFAC. If there is material in existing IAPSs that represents ‘fundamental principles and essential procedures’ it should be reclassified as an ISA.</td>
</tr>
<tr>
<td>AUASB</td>
<td>Practice Statements should only enunciate professional requirements to the extent it is necessary to reiterate an auditor’s responsibility already contained in an ISA. The primary purpose of Practice Statements should be to provide additional guidance on the practical application of an ISA, for example, for an audit of a particular class of entity in a specific industry.</td>
</tr>
<tr>
<td>Basel</td>
<td>It would seem most coherent to have the Practice Statements follow the same approach as the standards in their use of “shall” and “should” if that is the route taken.</td>
</tr>
<tr>
<td>CEBS</td>
<td>It would seem consistent that the Practice statements should follow the same approach as the standards in their use of ‘shall’ and ‘should’ if that is the route that is pursued.</td>
</tr>
<tr>
<td>CNCC-CSOE</td>
<td>The French Institutes consider that, in the line with the philosophy underlying option A of the restructuring, there should be no professional requirements in a practice statement.</td>
</tr>
<tr>
<td>FAR</td>
<td>PSs should not enunciate professional requirements. Those requirements should all be in the ISAs.</td>
</tr>
<tr>
<td>DnR</td>
<td>Our answer is “no” to both questions. See our comments to questions 2 to 5 above.</td>
</tr>
<tr>
<td>Respondent</td>
<td>Respondent Comment</td>
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</tr>
<tr>
<td>DT</td>
<td>We think that the move towards restructuring involves a “top down” approach. Since the philosophy of IAPSs is then to provide explanatory and interpretative material, they should not, in the name of consistency with the “top down” approach, enunciate additional professional requirements.</td>
</tr>
<tr>
<td>EC</td>
<td>The question to this answer heavily depends on how the Board intends to use IAPSs. But our general view is that IAPSs should not enunciate professional requirements in addition to ISAs.</td>
</tr>
<tr>
<td>EY</td>
<td>At this stage, we agree with IAASB’s statement that they may need to consider the future directions of IAPSs and that the results of this consultation may affect that. At this stage, we would recommend that IAASB does not change the way IAPSs are drafted, pending later consideration of this issue.</td>
</tr>
<tr>
<td>FEE</td>
<td>FEE recommends making the following changes to the existing three different types of IAPS as explained in paragraph 45:</td>
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<td>• IAPSs that provide detailed guidance on information technology: FEE has noted that such IAPS are being considered in the IAASB December meeting for possible withdrawal;</td>
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<td>• IAPSs that deal with particular issues (derivatives, electronic commerce, reporting on compliance with IFRS): the status of such IAPSs would need to be reconsidered and depending on the importance of the subject matter, these particular issues would either need to become an IAASB study, application or explanatory material or in case the subject matter is very important, an effective standard;</td>
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<td>• IAPSs that seek to interpret the application of ISAs across groups of auditors: some of such IAPSs deal with industry-related items, like financial institutions and insurance companies, and are traditionally already regulated on a national or local level. Therefore, there is often no need for such IAPSs. Other such IAPSs concern sector-related matters, like small and medium-sized entities or the public sector, and should be addressed in the ISAs themselves or should over a period of time be integrated in the application material related to the ISA.</td>
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<td></td>
<td>FEE does not support the proposal of the IAASB that Practice Statements, to the extent they are derived from professional requirements contained in the International Standards, express professional requirements. We believe that this would create confusion related to the status and use of professional requirements.</td>
</tr>
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<td></td>
<td>We refer to our responses to Questions 2 and 12 of the Proposed Consultation Paper and to our comments on Practice Statements as explained in our main comment on the Proposed Consultation Paper on “status of application material and Practice Statements” for further details.</td>
</tr>
<tr>
<td>GT</td>
<td>Because we support the existing style in which International Standards are written (as modified by the Proposed Policy Statement), we believe that the IAASB should maintain Practice Statements as other “explanatory material.” As such, we do not believe that Practice Statements should contain any professional requirements, but rather provide further explanation and guidance on the professional requirements embedded within the standards.</td>
</tr>
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</table>
|            | Further, if the IAASB clearly describes the authority of Practice Statements as “explanatory material,” then the style in which Practice Statements are written may
remain the same; provided the use of the present tense is discontinued within the Practice Statements as well.

H3C The status of the IAPS is insufficiently clear. It is important that a distinction be made between what is asked of the standards, and that of commentaries which should not possess any normative values. IAPS are not standards, and should not be created as such.

ICAEW We do not believe that Practice Statements should enunciate professional requirements. These should be confined to ISAs.

ICAI The current style of the Practice Statements is adequate and should not be changed. There should be no need to enunciate professional requirements in the Practice Statements as the requirements should be enunciated in the International Standards. Duplicating and enunciating the requirement a second time only creates duplication and potential for confusion and error.

ICANZ The objectives of the IAASB and the nature of the material should determine the form in which it is presented. The IAASB needs to establish a clear framework to guide the development, content and format of pronouncements including the standards, practice notes and other application guidance.

As a general principle we believe that all professional requirements should be contained in a Standard. Pronouncements such as Practice Statements should support the standards not add additional professional requirements.

ICAP The style in which Practice Statements are written appears to be appropriate and no change is required in it.

ICPAK IAASB should not change the style in which Practice Statements are written. Further Practice Statements should enunciate professional requirements.

IDW Given the existing authority of Practice Statements and their use in providing additional guidance to International Standards, we believe that the style in which Practice Statements are written to be appropriate. However, we do not believe that Practice Statements ought to include additional professional requirements or presumptions derived from those in Standards because those requirements and presumptions ought to be set forth in Standards rather than Practice Statements. In our view, Practice Statements ought to be limited to other considerations as we defined in our answer to question 2 of the Policy Statement and the Appendix to this comment letter.

IOSCO It would seem logical that the Practice Statements should follow the same approach as the standards in their use of “shall” and “should” when referring to mandatory and presumptive requirements.

ACCA The role and authority of Practice Statements should necessarily be subject to consideration in projects arising out of this consultation. Whatever form and nature of documentation is eventually decided upon, we believe that it is important for users to be able to determine whether material is intended to be a requirement or non-mandatory guidance.
<table>
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<th>Respondent</th>
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<tr>
<td>JICPA</td>
<td>The IAASB should not change the current style of the IAPS. Professional requirements are indicated in ISAs, so there is no need to indicate in IAPS.</td>
</tr>
<tr>
<td>NIVRA</td>
<td>The Practice Statements are not intended to have the authority of standards and nor should they. If there is guidance in a Practice Statement derived from fundamental principles we believe it and should form part of the main body of the standards.</td>
</tr>
<tr>
<td>PwC</td>
<td>As noted in our response to question 12 above, Practice Statements are issued to provide practical assistance to auditors in implementing the ISAs or to encourage consistent practice, or good practice. The Practice Statements are not intended to have the authority of standards and nor should they. If there is guidance in a Practice Statement that the IAASB believes constitutes a professional requirement, then we believe it be incorporated into the main body of the standards.</td>
</tr>
<tr>
<td>RR</td>
<td>I do not believe that the IAASB should change the style in which practice statements are written and nor do I believe that practice statements should enunciate professional requirements. In my view it is important that practitioners know where to find professional requirements and where to find material that is merely explanatory.</td>
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**Future Role for Practice Statements**

Q15. Taking account of the options identified above, what future role should the IAASB consider for Practice Statements? Are there other options that the IAASB should consider? Please explain why a particular option is being suggested and how it might be of benefit.

<p>| AASB-CICA  | We believe that this question would be better answered in the broader context of a project to develop a hierarchy for guidance that a professional accountant refers to in performing an assurance engagement (for example as set out in the AICPA's AU150, Generally Accepted Auditing Standards, and in the Canadian exposure draft referred to earlier in this letter). We believe that such a hierarchy would provide a framework within which the IAASB can decide the future role of Practice Statements, and Basis for Conclusions documents, and the possible need for new types of guidance with different types of due process in order to meet the needs of stakeholders. |
| ACAG       | The IAASB should continue to develop and issue Practice Statements as a means of providing practical guidance on contemporary issues as they arise. This approach, combined with an expedited approval process, will allow for greater currency of guidance provided than would be afforded should ISAs need to be revised each time such guidance is required. |
| APB        | The IAASB should consider withdrawing all of the existing IAPSs and, reclassifying that material which comprises fundamental principles and essential procedures as ISAs. |</p>
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<tr>
<td>AUASB</td>
<td>The AUASB believes the current role for Practice Statements should be retained.</td>
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<td>Basel</td>
<td>See the response to question 13 above. Although this does not relate explicitly to the current question, we believe that more emphasis should be put on clarifying the IFAC Code of Ethics as ethical issues have a significant impact on the quality of the audit.</td>
</tr>
<tr>
<td>CEBS</td>
<td>The rationale for locating some topics in Practice statements (e.g. derivatives) rather than in the ISAs is often unclear and this may compound any problems with their existing authority and application. It would seem more appropriate that Practice statements either cover specialist topics affecting particular industries such as banking, or very technical issues that may affect all auditing standards such as IT.</td>
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<tr>
<td>CNCC-CSOE</td>
<td>In Option A, the IAPSs would contain the application material of the standards.</td>
</tr>
<tr>
<td>DnR</td>
<td>There is a need for more practical guidance without any mandatory elements. The auditor should be able to use the guidance at his own discretion. See our comments to questions 2 above.</td>
</tr>
<tr>
<td>DT</td>
<td>In light of the “top down” approach mentioned above, assuming option A is adopted; IAPSs that are not closely related to any specific ISA should no longer exist and should instead be moved to training material (not issued by the standard-setting body). Similarly under option B, existing IAPSs should be either (1) reclassified under “essential procedures” and “application material” sections or (2) simply withdrawn.</td>
</tr>
<tr>
<td>EC</td>
<td>Given our preference for Option A as stated in § 2.6, IAPSs would include the explanatory material presently included in ISAs. Our perception is that in addition IAPSs may deal with issues that cannot be dealt with by ISAs. For instance, IAPSs can be used to cover industry-related matters (specific issues to consider for the audit of banks, assurance, or listed companies, …), or events limited in time (year 2000, transitional periods, …). Generally, recurring or cross-cutting topics should form part of ISAs themselves. For instance, the use of IT in an audit should fully form part of ISAs because IT is now widely spread throughout the audited entities. This should be the same for specific instruments or techniques (the audit of derivatives, long term contracts, …) that are likely to be met any time in various industries. As has been contemplated for ISA 600 – the audit of groups, IAPS related to a specific ISA should rather form part of the guidance and background information of the ISA.</td>
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EY

We note the suggestion in paragraph 47 of the Consultation Paper, at the third bullet, and believe that this would be a helpful expansion of the role of IAPS. However, we also note that this expanded role cannot necessarily be achieved if an expedited approval process is adopted – and we can see a useful role for IAPS to get guidance to professional accountants quickly.

FAR

The PSs could have the role described in paragraph 19, i.e. Restructuring Option A, as this would mean more manageable ISAs.

GT

As mentioned in our response to questions 13 and 14 above, we believe that Practice Statements should be labeled as “explanatory material.” That said, however, we would also support the demotion of Practice Statements to a lower level of authority whereby an expedited approval process may be used to issue guidance “…in a more timely and flexible manner.” We believe this is appropriate because more detail is now being provided within the standards themselves. In this circumstance, the IAASB should consider the use of an International Standards hierarchy (similar to the hierarchy that exists within the standards established by the American Institute of Certified Public Accountants), which adequately describes the standards and related guidance and their level of authority.

H3C

We don’t see the need for any other option.

ICAEW

The three current categories of Practice Statement are broadly similar in terms of coverage to Practice Notes and Bulletins that have been successfully used in the UK for many years. Practice Notes assist auditors in applying UK auditing standards to particular circumstances and industries. Bulletins provide timely guidance on new or emerging issues. These categories are slightly different to the two latter categories of IAPS identified in the Consultation Paper (IAPSs covering ‘particular issues’ and ‘group of auditors’) but cover broadly similar areas.

If IAPSs are to be used as a repository for material currently in ISAs (as suggested in the answer to Question 12 above), consideration will need to be given to the content of existing IAPSs. Is such material suitable for such a upgrade, are different categories of IAPSs required, or should some material currently in IAPSs be moved to a new category of IAASB document such as that suggested in the answer to Question 2 above (guidance for those auditors who lack technical expertise, representing best practice, but which would not form part of the corpus of material with which auditors are required to comply or are required to consider)?

We believe that all IAPSs should have the same authority, for the sake of simplicity, even if different categories of IAPSs are developed. Clearly defined categories of IAPSs should be helpful going forward. These might cover:

- IAPSs relating directly to ISAs (assuming that this route is taken);
- IAPSs relating to particular circumstances and industries;
Comments Received on Clarity Consultation Paper

Respondent  Respondent Comment

- IAPSs relating to new or emerging issues.

We do not believe that IAPSs should give detailed guidance on IT issues, but that consideration should be given to the development of a new category of IAASB document such as that suggested in the answer to Question 2 above.

ICAI  The role identified in option A in paragraph is an appropriate role for future Practice Statements.

ICANZ  In light of the proposed restructuring of ISAs including the possible development of Application Material, we believe the IAASB needs to establish a clear framework to guide the development, content and format of the various pronouncements. The IAASB will need to consider the nature of the pronouncements it needs in order to meet its objectives. The framework should establish the objectives and guide development of each type of pronouncement.

For example:
- the objective of standards is to outline the principles and establish requirements with which auditors are to comply when conducting an ISA audit;
- the objective of application material is to ensure that auditors apply the principles and requirements established in the standard;
- the objective of a basis for conclusions is to explain the IAASB rationale for provisions within each standard and revisions to such standards; and
- the objective of practice statements, if such pronouncements are considered necessary, might be to educate and illustrate best practice in relation to specific audit topics.

ICAP  The style and format should remain unchanged, as we have selected Option B for restructuring of the standards, which does not suggest incorporation of application material through practice statements.

However since the emphasis of the Exposure Draft is placed on the “shall” and “should” concepts the Practice Statements may be considered for modification to reflect the restructured regime of ISAs.

IAASB may also consider using Practice Statements to extend the professional requirement of International Standards (e.g. ISAs), and explain how such requirements apply, to specific industries or circumstances. As more direct extensions of ISAs, such Practice Statements could carry equal authority to the International Standard(s) to which they relate and could contain interpretive professional requirements that would be directly derived from those contained in the related International Standard(s).
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<tr>
<td>ICPAK</td>
<td>Maintain the present system for, and authority of practice statement. IAPS serve to fill the gaps not filled by the existing ISAs; this can be maintained by ensuring that the present system is retained. With the anticipation of changes in ISAs it will be necessary to evaluate what new gaps may arise, which will require the use of IAPS.</td>
</tr>
<tr>
<td>IDW</td>
<td>According to our understanding of option A, Practice Statements would serve the purpose originally intended; namely to provide other considerations as we defined in our answer to question 2 of the proposed Policy Statement and in the Appendix to this comment letter to assist professional accountants in implementing ISAs and to promote good practice, without being binding in every country or jurisdiction in which the ISAs are to be applied. Certain elements of guidance or examples, for instance, may not be entirely appropriate in all countries or jurisdictions.</td>
</tr>
<tr>
<td>IOSCO</td>
<td>We believe the present form and use of Practice Statements is generally useful and appropriate and do not have any further options to suggest.</td>
</tr>
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<td>IRE</td>
<td>…the IRE supports the proposal of the IRE staff to eliminate the outdated IAPSs, to be decided upon by the IAASB in the December 2004 meeting. The IRE favours an update of the guidance in the existing IAPSs. Following our comments to the ED and to the consultation paper, the IRE would like to comment additionally on paragraph 24 on page 25 of the consultation paper: “national standard setters might be allowed, however, to adapt the related material to deal with translation difficulties or local circumstances so long as any change does not undermine or contradict the effect of the standards.” The IRE wants to draw the attention of the IAASB to IFAC’s recently published ‘Translation of Standards and Guidance Issued by the International Federation of accountants’, paragraph 10, according to which: “no omission nor addition are allowed, except for translation footnotes, within the context of a faithful translation”.</td>
</tr>
<tr>
<td>JICPA</td>
<td>The IAPS should include implementation guidance relating to a specific industries and transactions.</td>
</tr>
<tr>
<td>NIVRA</td>
<td>We do not believe a restructuring exercise is necessary for Practice Statements and wish to maintain the present system for and authority of the Practice Statements.</td>
</tr>
<tr>
<td>PAAB</td>
<td>We believe that Practice Statements serve a useful purpose in providing further guidance for specific industries and also provide an ideal structure to address national regulatory and legislative requirements. In South Africa, we will develop local practice statements to accommodate specific local requirements, regulatory and otherwise, as well as address specific industry requirements.</td>
</tr>
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</table>
PwC: We do not believe a restructuring exercise is necessary for Practice Statements. Nonetheless, we do believe IAASB should carefully consider whether certain explanatory material in existing ISAs would be better placed in a Practice Statement. For example, we believe that illustrative examples now in the body of guidance in the ISAs and in appendices to them would be better placed in Practice Statements that provide implementation guidance to specific ISAs. Equally, certain Practice Statements, such as the guidance on Reporting on Compliance with IFRS, may be better placed in an ISA.

RR: I think practice statements should continue to carry out the role that they currently have; namely that of providing guidance and advice on certain specific matters.