



Organización Internacional de Comisiones de Valores  
International Organisation of Securities Commissions  
Organisation internationale des commissions de valeurs  
Organizaçao Internacional das Comissões de Valore

January 10, 2005

Mr. James Sylph  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, NY 10017

Email [Edcomments@ifac.org](mailto:Edcomments@ifac.org)

Re: Exposure Draft of Proposed Policy Statement "Clarifying Professional Requirements in International Standards Issued by the IAASB" and Consultation Paper on Improving the Clarity of IAASB Standards and Related Considerations for Practice Statements.

Dear Mr. Sylph:

IOSCO's Standing Committee No. 1 on Multinational Disclosure and Accounting appreciates the opportunity to comment on the documents noted above.

As securities regulators representing the public interest, we are committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing, and professional standards. Our comments in this letter reflect those matters on which we have achieved a consensus among members of Standing Committee No. 1 and are not intended to include all comments that might be provided by individual members on behalf of their respective jurisdictions.

**The ED is a welcome step toward improving the clarity of standards**

Improving the clarity of the International Standards on Auditing (ISAs) and other guidance issued by the IAASB is an undertaking of the highest importance. The issuance of the Exposure Draft is an important step toward improving the clarity of ISAs and we commend the IAASB for proposing to use clear and unambiguous terminology.

We understand that the subject of adding requirements and other guidance that makes standards longer has raised concern among some IAASB members and others in the profession. We want to emphasize that we recognize that each audit is unique and that all audits require the exercise of considerable judgment on the part of the auditor. At the same time, we are firmly convinced that there are certain procedures that should be required in all

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audits of public listed companies, and other procedures that should be presumptively required. We therefore support the ED's overall approach to communicating the two levels of requirements. We do have a number of comments regarding details of the approach, which we will outline later in this letter.

### **The proposals in the Consultation Paper for restructuring**

We understand the desire to explore alternative forms of organizing the information in auditing standards to improve understandability among those who use the standards and we agree that understandability is of paramount importance in developing and using auditing standards. However, we are concerned about the assertion that the present form of ISAs needs to be completely restructured. We are troubled by statements that trained professional auditors are finding it difficult to understand and use some of the recently issued auditing standards simply because they are longer and more detailed. In our view, the recently-issued ISAs have been improvements over earlier versions, and to reverse course now would be a step backward.

We understand and agree that international auditing standards need to be principles-based. High quality standards should contain substantive objectives and clear principles that are consistent with a sound conceptual framework. It is also important that standards contain a sufficient amount of implementation guidance to make the application of the principles clear. We think that the complexities of the business world and of the listed companies whose financial statements are the subject of audits will tend to add requirements and length to audit standards over time. Length of a standard should not be viewed as a problem in and of itself.

Where understandability of a standard is a concern, regardless of length, additional work should be done in the development process to ensure that the standard is clear and understandable by all who will use it. In our view, provided that such additional work is done, clarity can be accomplished within the present format of standards without the necessity for a restructuring of standards. Ultimately, ISAs must contain whatever specific requirements are needed to address public interest concerns and support high-quality audits.

We are also not convinced that restructuring of ISAs is necessitated by legal requirements in some jurisdictions. While some of our members do have two-level auditor guidance in place today, we do not consider that the existence of such national approaches creates a legal requirement for ISAs to be written in two parts. We note that in some jurisdictions auditing and accounting standards are incorporated into law by general reference to the body of standards, rather than by including the entire text of each standard in legislation. Such a practice eliminates the necessity to seek a change in the text of legislation each time that any change in an auditing standard, however minor, is made.

We believe that convergence and consistency in national and international standards will not be impeded as long as ISAs and national standards are consistent in their contents. In our view, a significant measure of convergence can be achieved while improving the standards, if the Board focuses on clarifying the content and the objectives, principles, and requirements involved in each standard, as it works on agenda projects. As we comment later in this letter, if the IAASB decides to pursue a project on fundamental principles, presenting such principles in a separate ISA would not necessarily conflict with national standards. Regardless of whether the sets of standards presently do or do not contain descriptions of

such high level principles in separate standards, consistency can be achieved so long as the principles themselves appear in both sets of standards.

Our members do not reject the idea that some changes in formatting or presentation of standards might be useful in making standards more easily readable. For example, we think that ISAs might be enhanced if each future standard would begin with short statements of objectives and principles. We have addressed possible approaches for doing this without a major restructuring in all the standards later in this letter, in our responses to the questions in the ED and Consultation Paper (see Parts I and II). However, in any exploration of other ways to write or format standards, it will be extremely important to ensure that changes made do not create, or appear to create, reduced requirements for auditors. We also think it would be wrong to encourage auditors not to read the full content of standards.

### **Implementation of the ED changes should occur as quickly as possible**

We believe it is very important that the implementation of clarified language for ISAs should not be delayed while consideration is given to broader issues of other ways that standards might be improved, including any potential restructuring, separate work on overarching principles, and other longer-term matters. The adoption of the ED changes and consideration of other matters should be two separate streams of effort. We urge the IAASB to implement the ED's language changes promptly, as a matter of priority.

### **How to introduce the changes described in the ED**

We understand that a prospective-only approach might be the easiest and quickest way for the Board to get started in using a new approach in standards; however, revising standards one at a time as they come up on the Board's regular project agenda would implement clarity changes far too slowly. Such an approach also would not address some important ISAs that need prompt clarification because of their broad impact on other ISAs and on audits.

If it were possible to do an "all at once" revision of standards on a timely basis, our members believe that this would be the most desirable approach. Realistically, however, such an approach would involve a protracted length of time before the entire body of clarified ISAs could become available. It would be very undesirable to wait an extended period of time before clarifying ISAs.

Our members therefore urge the IAASB to undertake a "modified prospective" approach that would involve a rewrite of a few of the more recently-issued ISAs into the new language over a relatively short period of time, and would couple this priority revision effort with the gradual replacement of all other standards. A modified prospective approach such as this would be capable of executing much-needed improvements in a more timely fashion. The Audit Risk and Fraud standards should be rewritten quickly to ensure that these standards are clear. The fundamental nature of the Audit Risk standard, and its pervasive effect on all aspects of the audit process, demand clarity. The Fraud standard has particular significance given recent major reporting and audit failures. Some members have also cited the Quality Control standards as also warranting priority updating to clarify requirements.

As to the transition period where both old and new standards will be in existence, our members are naturally concerned about the understandability, consistency, and enforceability of having two types of standards in wide use. It will be important to distinguish between "old

format” and “new format” standards, and to set out very clear instructions as to the interpretation of bold letter text and “should” statements in the old standards. In another transition issue, the ED is interpreted by some to consider all previously bold lettered text as only “presumptive requirements” during the transition period, while others understand the intent to be that bold text and “should” statements in previous standards would continue to have the same status as they have in their present text, i.e., are procedures that could only be departed from if such action would “more effectively” achieve the objectives. Which of these interpretations is correct needs to be made clear in the final policy paper.

### **The illustrative rewrite of ISA 315**

When we reviewed the illustrative revision of ISA 315 contained in the Exposure Draft, some of the “shall” and “should” statements included were not what we would have expected. For example, the statement in paragraph 13, “When the auditor intends to use information about the entity and its environment obtained in prior periods, the auditor should determine whether changes have occurred that may affect the relevance of such information in the current audit.” We understand that this is just an illustrative example and that ISA 315 was not re-discussed by the Board, but one would think that paragraph 13 would be a mandatory requirement if the auditor intends to rely on previously-obtained information. We have other comments about the illustrative rewrite later in this letter.

### **Departures from presumptive requirements**

The inclusion of appropriate mandatory and presumptive requirements in audit standards is an important part of supporting high quality audits, as is having good criteria for departing from a presumptive requirement. A departure from a presumptive requirement should be permitted only if the auditor judges the alternative procedure to be as good as or better than the stated requirement and concludes that the alternative procedure will adequately protect the interests of investors. Without such criteria, we are concerned that departures from presumptive requirements will not be “rare” as stated in the ED. This creates the further concern that audit quality will not be supported and enhanced by the standards.

### **Our further comments follow**

Thank you for the opportunity to comment on this ED. Our responses to the questions in the Exposure Draft and Consultation Paper, and further comments on matters raised, are attached as Part I and Part II of this letter. If you have questions regarding any of our comments, please do not hesitate to contact me or Susan Koski-Grafer at (202) 942-4400.

Sincerely,



Scott Taub

Chairman

IOSCO Standing Committee No. 1

## **Part 1 Comments on the Exposure Draft “Proposed Policy Statement, Clarifying Professional Requirements in International Standards Issued by the IAASB”**

### **1. Equal Authority - Do respondents agree with the view of the IAASB, or would a statement of “equal authority” assist in clarifying the responsibilities of the professional accountant?**

We think it is very important to retain the statement in paragraph 2 of the Proposed Policy Statement in the ED, “Professional accountants have a responsibility to consider the entire text of an International Standard in carrying out their work on an engagement and in understanding and applying the professional requirements of the relevant International Standard(s).”

If the language in ISAs is changed to distinguish clearly between mandatory and presumptive requirements through the use of “shall” (defined as equivalent to “must”) for mandatory requirements and “should” for presumptive requirements, the level of requirements within the bold typeface content would be evident without a separate statement regarding equal authority.

Standing Committee No. 1’s past requests for a statement regarding “equal authority” have stemmed from the confusion that has existed over whether requirements for auditors existed in both bold and grey typeface statements. Our concern was that the previous format and drafting convention could lead to auditors believing they were “only” required to do what was described in bold type.

### **2. Do respondents agree with the proposed categories of professional requirements and the related obligations they would impose on professional accountants?**

We agree with the two categories of requirements although we think the first category should be labeled “mandatory requirements”. Please see our answer to question 6 for further details.

Some of our members have expressed a preference for the word “must” rather than “shall” for clarity, translation, or convergence reasons. We are aware of some of the Board’s discussions on this matter as the ED was deliberated, and we understand the process by which the Board reached its conclusion. In our response to Part 1 Question 6 in this letter, we have suggested an approach that we hope might resolve the issue to the satisfaction of all concerned.

### **3. Do respondents believe that the proposals will improve the quality and consistency of audits?**

We believe that the proposals will help to improve the quality and consistency of audits by clarifying auditors’ and others’ understanding of what is required and expected in various aspects of an audit, thereby forming a basic foundation to support the use of proper judgment.

While new standards alone cannot improve the quality of audits, we believe that greater clarity in the language used to write the standards, particularly with respect to mandatory and presumptive requirements, will aid in understandability and will facilitate correct and consistent application.

**4. Do respondents agree with the proposed requirement for the professional accountant, when departing from a presumptive requirement, to document why the professional accountant decided to depart, and how the alternative procedure(s) performed were sufficient to achieve the objectives of the presumptive requirement?**

We agree with the requirement to document a departure from a presumptive requirement and we believe this documentation should be done at the time the decision is made. However, we are concerned that the criteria or justifying rationale for departing from a requirement has been changed from "necessary to more effectively achieve the objectives of the engagement" (as at present) to "why the professional accountant decided to depart and how the alternative procedure(s) performed in the circumstances were sufficient to achieve the objectives of the presumptive requirement" (underlining ours).

This language change can be interpreted as lowering the criteria for a departure, in that "more effectively" has been replaced by "sufficient". We understand that the ED has added a requirement to document the departure, as opposed to merely "be prepared to explain the departure," and we commend this change. But we do not see the requirement to document the departure as a justification for stating that the alternative procedure need be only "sufficient", when some persons might interpret the word "sufficient" to mean a bare minimum in the absence of further explanation of what is intended.

We would suggest that the Board adopt a different wording that makes clear that departures are allowed only in the circumstance where the auditor judges that a different action would be more effective -- or "as good or better" -- in achieving the goals of the audit and of the requirement in question, and in serving to protect the interests of investors.

We are also concerned that we see some "should" statements in the illustrative rewrite of ISA 315 that we believe would need to be mandatory for all audits and therefore should be written as "shall" statements. Appropriate inclusion of mandatory requirements is important to the quality and soundness that is expected in auditing standards. For example, the statement in paragraph 13, "When the auditor intends to use information about the entity and its environment obtained in prior periods, the auditor should determine whether changes have occurred that may affect the relevance of such information in the current audit."

We understand that this is just an illustrative example and that ISA 315 was not re-discussed by the Board, but one would think that paragraph 13 would be a mandatory requirement if the auditor intends to rely on previously-obtained information.

We believe clarification is also needed regarding the requirements for matters the auditor "should consider". In the standards (and indeed in the example presented) there is extensive use of the phrase, "the auditor should consider." The proposed Policy Statement states that "If an International Standard provides that a procedure or action is one that the professional accountant "should consider," the consideration of the procedure or action is presumptively required, while carrying out the procedure or action is not. We are unclear as to how the term "should consider" would be treated in terms of documentation. What is intended in the present text? Do auditors have to document that they did or did not "consider" a matter when

the phrase used is “should consider”? If the auditor just reflects on the matter in considering it and does not take any other action, does the auditor need to document this reflection, and if so how? Some members have also expressed the view that “shall consider” would be a more appropriate term, at least for some procedures or actions that it should be mandatory to consider in all audits. One member has raised the question of whether “consider” is the right action word, believing it would be more appropriate to say “assess,” or some other term that would indicate that some active decision or determination must be made.

As a final comment on the subject of presumptive requirements, we would like to raise the issue of “objectives”. In the last paragraph on page 6 of the Explanatory Memorandum of the ED, it is stated that a presumptive requirement can be departed from where the auditor can explain how the alternative procedure(s) performed were sufficient “to achieve the objectives of the presumptive requirement”. This presumes that the standards document will clearly identify what the objective is in each case.

Having raised the matter of objectives, it is incumbent on the IAASB to make clear what the objective is in each standard. As we have stated earlier in this letter, high quality standards should contain substantive objectives and be based on clear principles that are consistent with a sound conceptual framework. It is also important that standards contain sufficient implementation guidance to make the application of the principles clear.

**5. Do respondents agree with the applicability of the proposed documentation requirement to departures from International Auditing Standards before they are revised?**

We agree with the documentation requirements, but with some reservations about mixing requirements that are now in bold lettering because they are “essential” with presumptive requirements in the category.

We recognize that some type of interim, transitional measure is needed for standards that are still in use in a previous format after a new format is approved, but we are concerned that some requirements now in “basic principles and essential procedures” which ought to be mandatory will now be considered only as presumptive requirements for some period of time.

We recognize that this transitional arrangement is arguably a partial improvement over the present situation in ISAs, in that the auditor will have to document the reasons for the departure at the time such a decision is made; however, we would urge that such departures be kept to a minimum. In our view, departures should only be permitted when the auditor judges that an alternative action would be as effective or more effective in accomplishing the objectives of the requirement and protecting the public interest, than the procedure that is stated in the standard. The reason for the auditor’s determination and how the auditor concluded that the alternative action selected is effective in protecting the public interest should be documented when the decision is made.

**6. Will the proposed terms “shall” and “should” result in translation difficulties? The IAASB had considered the word “must” as an alternative to “shall” – would this alternative resolve any identified translation difficulties?**

Some of our members express a preference for the use of the word “must,” either for translation reasons or because they believe that “must” is a clearer and more understandable

term. We are aware of the differing views that were raised when this was deliberated in the IAASB. Our recommendation is that the Policy Statement indicate that the word "shall" is intended to be equivalent to "must" and that each locality should use the word that is judged to be most appropriate in the local language. This would resolve the debate and would have the added benefit of achieving convergence with standards that use either term.

We also believe that the term "requirement" should be replaced with the term "mandatory requirement", as it would enhance clarity to be explicit in describing each type of requirement, rather than to say "requirement" and "presumptive requirement".

**7. Does the anticipated increase in the number of bold type requirements that may arise by adopting the proposals raise concern over the specificity and level at which professional requirements are set?**

No. We think that such concerns are misplaced, as it is not the increased clarity of language that would create any new requirements, but rather the expectations placed on auditors regarding what is needed to conduct a high quality audit.

This question in the ED seems to imply that there will be a significant increase in the number of "shalls" and "shoulds" as a result of clarifying what is intended in the present standards -- we believe this is more a matter of deciding what is needed to support high quality audits. The ED further implies that any additional requirements in the "post clarity" standards represents a move to "rules" rather than "principles" based standards. We disagree. In our view, the direct result of the clarity project would be the implementation of new language conventions that would make clear what is already in the existing standards. At the same time, the Board would be considering what else is needed for a high quality audit, and making this clear too.

We think it is inevitable that additional requirements will be placed on auditors in jurisdictions around the world, in light of financial reporting and auditing failures in recent years and the increased demands of the public interest. These public interest expectations exist and are part of an increased focus on auditor oversight and audit performance. It will be necessary to address these expectations directly, debate them and resolve what is to be required, and then communicate the requirements clearly in standards issued for public exposure. Each finalized standard will ultimately contain as many requirements as are determined to be appropriate in the standards setting process. This will be a result of better aligning expectations with actions, not the result of using new language to clarify requirements.

**8. Do respondents agree with the decision of the IAASB to retain the bold type convention?**

One benefit of having all text in the same type is that debates and potential confusion about greater or lesser status of bold type and gray type are completely avoided. Another benefit is to minimize the possibility of readers only "skimming" the bold text and not reading all content they need in order to obtain a full understanding of a standard. Some of our members would prefer to see all text presented in plain type to avoid such problems.

On the other hand, we recognize that using bold type, headings, indentations, bullet points and other drafting conventions can help to increase the readability of a document. If bold



type is used in a document to highlight mandatory and presumptive requirements for purposes of aiding overall readability, and this usage is clearly explained, the concerns of some of our members can be minimized. Under these conditions, we would agree with the decision of the IAASB to retain the bold type convention.

**9. Do respondents agree that the IAASB should apply the proposals on a prospective basis?**

We do not support a “prospective only” approach. There is an urgent need to clarify the requirements in ISAs and more needs to be done to clarify a greater portion of the standards more quickly than could be accomplished with a prospective-only approach. Some of the recently issued ISAs are fundamental to the audit process and should be clarified promptly, not at some much-later date when they might again come up for revision.

We urge the Board to apply the proposals on a modified prospective basis as follows:

- All exposure drafts being readied for issuance, and all standards previously exposed and nearing completion at the time of the Board’s decision should be rewritten in the new format before issuance.
- Standards rewritten should be re-exposed before final issuance so that it is possible to clearly understand the impacts that could occur on audit practice and on regulators’ judgments of adequacy of the standards.
- All new project work and all drafting of future exposure drafts should be carried out on the new language basis.
- In addition, the Audit Risk and Fraud standards, and possibly also the Quality Control standards, should be revised into the new format on a priority basis, and re-exposed. The importance and major impact of the Audit Risk and Fraud standards make it imperative to clarify these standards as quickly as possible.
- A plan should be developed to revise all remaining standards and practice statements as soon as possible, giving priority to those standards that need to be enhanced and updated for other reasons as well as for revising for the new language.

**Part II Comments in Response to Questions in Consultative Paper “Improving the Clarity and Structure of IAASB Standards and Related Considerations for Practice Statements”**

**1. Has the length and style of these (recent) 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.**

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.

**2. 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, scope of matters addressed or other aspects of the standards. How do respondents consider such matters might be resolved?**

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.

**3. 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.**

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.

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

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.

**5. Do respondents believe that the IAASB should continue with the 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?**

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.

**6. 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?**

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.

**7. Notwithstanding the decisions of the IAASB regarding the proposed Policy Statement (see accompanying Exposure Draft), in the event that 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 prospectively, but on a priority basis 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?**

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.

**8. 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.**

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.

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

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

**10. Do respondents consider the proposed fundamental principles to be complete and appropriate, and do respondents believe the method by which they have been derived to be appropriate? If not, what matters do respondents believe should be considered in development of fundamental principles?**

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 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.

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

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.

**12. Do respondents agree with the proposed authority to be afforded the fundamental principles?**

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.

**Practice Statements**

**12. (Duplicate number 12 as indicated in the Consultation Paper) 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?**

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.

**13. 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 requirements?**

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..

**14. 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.**

We believe the present form and use of Practice Statements is generally useful and appropriate and do not have any further options to suggest.