

## Comments Received on Clarity Exposure Draft: Proposed Policy Statement

### Detailed Comments

Respondent	Respondent Comment
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1. 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?

AASB – CICA	Paragraph 8 of the ED indicates that explanatory material is not intended to impose a professional requirement for the professional accountant to perform suggested procedures or actions. We believe that, by definition, explanatory material does not have equal weighting with professional requirements. Accordingly, use of the term “equal authority” would be confusing to professional accountants. We therefore agree with the view of the IAASB that the term should not be used.
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We believe that paragraphs 2 and 8 make it clear that professional accountants must consider the entire text of an International Standard in carrying out their work.

ACAG	We believe that a statement of ‘equal authority’ would assist with clarifying the responsibilities of professional accountants.
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The International Accounting Standards Board makes the following statement about ‘equal authority’ in its *Preface to the International Financial Reporting Standards*: “Standards approved by the IASB include paragraphs in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.”

To our knowledge, this statement has not caused significant confusion. To alleviate potential confusion, the statement of ‘equal authority’ should be accompanied with a clear explanation of the terms ‘requirements’ and ‘presumptive requirements’. This should be included, or at least referred to, in each standard issued by the IAASB.

It should also be noted that the Urgent Issues Group of the Australian Accounting Standards Board has considered this issue at length and concluded there was no need for a statement of “equal authority”. It has dealt with this by including the following at the commencement of each Interpretation: “Interpretation 10XX is set out on pages X to XX”. This range of pages embraces all paragraphs in the Interpretation making it clear to a reader that all paragraphs have equal authority.

ACCA	If the simple restructuring options were to be pursued, we agree with IAASB that a statement of ‘equal authority’ would not be necessary.
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APB	APB strongly supports the view of the IAASB and believes that a statement of 'equal authority' would detract from an understanding of the relative status of the material contained in the international standards and practice statements.
AUASB	By categorising and specifying the degree of responsibility attached to various requirements in auditing standards, we agree there is no need for a statement about 'equal authority'. In effect, the bold letter requirements ('black letter') should state the required actions or procedures, while the grey letter should articulate and provide guidance about compliance with and practical implementation of those requirements.
Basel	We agree that a statement of 'equal authority' on its own does not clarify the responsibilities of the professional accountant. Furthermore, it would be difficult to have a statement of 'equal authority' when the standards use 'shall' and 'should', which may be seen as a hierarchy of requirements. The arguments in the ED are not fully explored and could be better exposed. We believe that some wording is needed which states unequivocally that all aspects of a standard need to be considered in performing an audit. The Board may wish to consider whether the proposed wording in paragraphs 2, 4 and 8 is sufficiently clear and imperative.
CEBS	We agree that a statement of 'equal authority', on its own, would not now clarify the responsibilities of the professional accountant. Under the new approach, where the language clearly indicates what should be done, a statement of equal authority becomes irrelevant.
CIPFA	We agree with the IASB that the term 'equal authority' would not enhance the clarity of the statement.
CNCC-CSOEC	<p>The French Institutes agree with the view of the IAASB not to use the term "equal authority" which they believe to be misleading.</p> <p>The words "equal authority" would most probably be understood as "having the same degree of obligation" and would therefore not seem to make sense when used in the context of professional requirements vs. explanatory material.</p> <p>At the same time, the real intended meaning of the expression, which is "that has undergone the same due process", is not conveyed by the words "equal authority".</p>
CPA Aus	Yes, CPA Australia agree with the view of the IAASB. Categorizing the respective professional requirements automatically delineates the auditor's degree of responsibility to undertake a particular requirement or action. Introducing the concept of equal authority will create confusion over responsibilities.
DnR	We agree with the view of the IAASB.
DT	We support the view of the IAASB that the use of the term "equal authority" would not further enhance the effect of the intended changes and moreover that the meaning of the term is subject to interpretation, with the risk of having the opposite effect.
EC	We agree with the view of the Board. The authority should only derive from the language and words used.

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EY	We agree with the IAASB's view that a statement of "equal authority" is unnecessary. Retaining the bold text and clarifying the use of present tense and explanatory material is effective in clarifying the responsibilities of the professional accountant.
FAR	We agree with the view of the IAASB that a statement (in itself) would not assist in clarifying professional requirements.
FEE	FEE agrees with the IAASB that the use of the term "equal authority" would not enhance the effect of the intended changes further.
GT	A statement of "equal authority" or another alternative acceptable term is not necessary to further clarify the responsibilities of the professional accountant. We believe that the proposed Policy Statement is sufficient and adequately describes the professional accountant's responsibilities, while also eliminating the ambiguity related to obligations stated in the present tense. Accordingly, we agree with the IAASB's conclusions that "...the term 'equal authority' would not further enhance the effect of the intended changes..." and therefore, such term or its equivalent should not be adopted.
H3C	We are in agreement with IAASB view that there is no need for a specific term in order to achieve a similar concept as "equal authority", but are of the opinion that focus needs to remain on the mandatory status of the standards.  The words "equal authority" denotes an understanding of "an even/same degree of obligation", which would not be the case if looked upon in the context of professional requirements vs. explanatory material. Similarly, it must be noted that the real intended meaning of the expression, which is "that has undergone the same due process", is not conveyed by the words "equal authority".
ICAEW	We agree with the view of the IAASB.
ICAI	We agree that the use of the "equal authority" type wording is problematic and that the solution proposed in the Exposure Draft is an appropriate solution to the issue.
ICANZ	We agree with the view of the IAASB. A statement that all paragraphs have equal authority would potentially create uncertainty regarding the application of the standards and make it difficult to include explanatory material illustrating the need to exercise judgement.  In addition auditing standards in a number of jurisdictions have legal backing and other jurisdictions are considering the legal status of audit standards. A statement of equal authority may make it difficult to interpret the standards in a legal sense and may discourage certain jurisdictions from adopting ISAs in an unmodified form.
ICAP	As regards the applicability of auditing standards in their entirety, there is a general feeling that bold type sentences are more important than other sentences and we

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agree that they are normally taken as superior text as compared to remaining parts of standards.

We feel that the use of word equal authority, as an alternate to IAASB views, in the policy statement for both plain and bold text used in an ISA would leave room for differing interpretation and hence would not fully meet the objective of the change.

We agree with IAASB view on how to proceed in order to clarify the responsibility of professional accountants through necessary changes in the policy statement. We believe that the proposed changes in the policy statement would address all three principal issues identified and considered by the IAASB in order to improve clarity and understanding of the standards to be issued in future.

ICPAK      I don't agree with IAASB view. The statement of "equal authority" will assist in clarifying the responsibility of the professional accountant. To avoid ambiguity then the words equal authority can be replaced, for instance it can be framed as follows the entire text of an International Standard is applicable by the professional accountant.

IDW      We agree with the view taken by the IAASB, because once the IAASB has taken steps to clarify the wording used to set forth professional requirements and stated that all of a standard needs the auditor's attention and consideration, it will not be necessary to include a statement of "equal authority". Furthermore, we share the IAASB's concern that the term "equal authority" is subject to varying interpretation.

IOSCO      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.

IRE      The IRE agrees with the view of the IAASB.

JICPA      We agree with the IAASB's view that the use of the term "equal authority" would not further enhance the effect of the intended changes.

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KPMG	We agree with the view of the IAASB. A statement of “equal authority” on its own will not help clarify the intent of grey lettered paragraphs written in the present tense.
NIVRA	Although, valid arguments supports the view that all text in a standard should be seen to have “equal authority” we are also aware that there is a potential risk for ambiguity. Grey and bold-lettered professional requirements are intuitively not equally “authoritative”. Accordingly we support the IAASB view that a statement of “equal authority” would not clarify the responsibilities of the professional accountant and can be seen as unnecessary.
PAAB	<p>We believe that the current convention in which principles and guidance are drafted in bold and grey lettering respectively is useful. However, we support the view that the auditor should consider all aspects of the Standards irrespective of the ‘authority’ allocated to black and grey lettered paragraphs.</p> <p>We also refer to paragraph 16 in the IAASB’s Preface to the international Standards on Quality Control, Auditing, Assurance and Related Services, which states the following:</p> <p>‘The IAASB’s Standards contain basic principles and essential procedures (identified in bold type lettering) together with related guidance in the form of explanatory and other material, including appendices. The basic principles and essential procedures are to be understood and applied in the context of the explanatory and other material that provide guidance for their application. It is therefore necessary to consider the whole text of a Standard to understand and apply the basic principles and essential procedures.’ (Own emphasis).</p>
PWC	<p>In our opinion, the above paragraph adequately addresses the auditor’s responsibilities in terms of the Standards without further clarification required in respect of the ‘authority’ of black and grey lettered paragraphs. We therefore agree with the view of the IAASB and do not support any further clarification of ‘equal authority’.</p> <p>We appreciate that there are valid arguments supporting the view that all text in a standard should be seen to have “equal authority”. It emphasises that auditors need to consider the whole text of an International Standard in order to fully understand the requirements. If appropriate drafting conventions are followed, the relative authority of the professional requirements and related guidance within a Standard should be readily apparent from the language itself. However, there is a potential for ambiguity in referring to “equal authority” because guidance and bold-lettered professional requirements are not equally “authoritative” in defining what it is auditors are expected to do in complying with the standard. Accordingly we support the approach taken in the draft Policy Statement that avoids use the phrase.</p>
RR	I agree that a statement of equal authority would not be helpful. The IAASB (and the IAPC before it) has long made clear that in its view there is no difference in authority between the bold lettered paragraphs and the paragraphs in plain Roman type. The problem has not been a lack of clarity on the IAASB’s part, it has been some readers’ lack of willingness to accept that this is the position. I do not believe that this unwillingness can be overcome merely by a simple statement by the IAASB.

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Given that different paragraphs will have different levels of compulsion (as they do at present) then it will be necessary to explain how equal authority does not mean equal compulsion in a way that does not reduce the authority of the non-compulsory paragraphs. If the IAASB has not been able to find a suitably compelling formulation in its current standards (whose paragraphs have merely two different levels of compulsion) then I do not think it will be able to do so in its future standards (whose paragraphs will have three different levels of compulsion).

2. Do respondents agree with the proposed categories of professional requirements and the related obligations they would impose on professional accountants? Please state the reasons in support for your response.

AASB-CICA      We agree with the proposed categories of professional requirements and the related obligations that they would impose on professional accountants. They bring a clear articulation of these obligations. We also consider that the proposed categories are consistent with the US Public Company Accounting Oversight Board's (PCAOB) standards dealing with the authority of terminology. We believe that this is important in achieving international harmonization in the way standards are written.

ACAG              We agree with the proposed categories of professional requirements ('requirements' and 'presumptive requirements'), subject to clear explanation of the meaning and implication of these terms.

The basis of our agreement is that the proposed categories allow for the level of rigor expected of the auditing profession, whilst also allowing for the exercise of professional judgment, as appropriate.

We also recommend that the IAASB provide further guidance in the form of examples to illustrate the circumstances whereby a departure from the presumptive requirements would be considered appropriate and need to be documented.

ACCA              We recognise that IAASB has been influenced by the US Public Company Accounting Oversight Board, which has adopted three categories of imperatives: unconditional responsibility, presumptively mandatory responsibility and responsibility to consider. The first two of these are essentially the same as the IAASB 'requirements' and 'presumptive requirements'.

We suggest that, in practice, there is very little difference between these two as it is up to the auditor to determine whether the circumstances exist to which a requirement applies. The slightly different documentation requirements are unlikely to have a significant effect on the quality of an audit. We also question whether it is feasible to have a requirement for auditors to make judgements in relation to the objectives of a presumptive requirement when those objectives are not set out in the standards.

Respondent	Respondent Comment
	<p>If the intention is to classify all requirements into only these two categories, it is inevitable that ISAs will become extensively rules based, resulting in a 'tick-box' mentality rather than promoting auditor judgement. The third option, of requiring consideration, is much more in keeping with a principles-based approach and we would encourage its wider use.</p>
AICPA	<p>We believe that the most important contribution to clarity is the clear and consistent use of the English language. While we believe the IAASB should adopt a protocol for the terms it will use in International Standards, we believe that the most important contribution to clarity is a concise definition of what is "intended" by the particular term selected in drafting. That is, the protocol should set forth what term is used to impart an unconditional obligation on professional accountants and what term is used to set forth a presumptive obligation.</p> <p>The policy statement proposes that the International Standards will use the word "shall" to indicate a requirement. We prefer the use of the word "must" as an alternative to "shall." The dictionary (fn) defines "must" as to be obliged to, to be certain to, ought to. "Shall" is used to express the future tense or an emphatic intention, express a strong assertion or command rather than a wish. We believe that "must" is clearer in meaning and more definitive than "shall." If the IAASB uses "shall," the term will need to be clearly defined to eliminate any ambiguity in the meaning.</p> <p>We agree with the use of the term "should" to impart a presumptive requirement. We support the ability of the professional accountant to overcome a presumptive requirement when it is clear that the objective of an International Standard will be met by an alternative procedure.</p> <p>(fn) The Concise Oxford Dictionary , 8th Edition. In comparison, the Webster's New Collegiate Dictionary defines "must" as an imperative need or duty, a requirement. "Shall" is defined as will have to (must); will be able to (can).</p>
APB	<p>APB is unclear how IAASB will distinguish between 'shall' and 'should' requirements when drafting ISAs and is concerned that there is a risk that some of the existing requirements will be classified as 'shalls' but may not be universally applicable. If this were to happen it would cause practical difficulties for auditors and could lead to the credibility of the ISAs being undermined. As explained in 7 below, the APB strongly supports the need for IAASB to identify and communicate the 'fundamental principles of auditing' and believes that the word 'shall' should be reserved for these.</p>
AUASB	<p>The AUASB supports the proposed categories of professional requirements and the auditor's degree of responsibility attached to those requirements. To a large extent, the terms used are comparable with the approach taken by the PCAOB in its Rule 3101 Rule Regarding Certain Terms Used in Auditing and Related Professional Practice Standards, insofar as they effectively mirror the three categories used to designate an auditor's degree of responsibility. The AUASB supports this approach.</p> <p>The AUASB is particularly supportive of the proposal to discontinue using the present tense in ISAs, because (as stated in the exposure draft) this type of language creates confusion and uncertainty regarding an auditor's degree of responsibility to undertake the particular action or procedure. Such uncertainty is especially</p>

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problematic when requirements in auditing standards will be legally enforceable. Accordingly, increasing specificity and using language that describes auditors' obligations more definitively should improve audit quality through more consistent application of auditing standards.

Basel      Each auditing standard should provide sufficient detail and structure to be applied on a consistent basis. Clear and consistent use of language is therefore very important. We are aware that the proposed categorisations are also used in standards of the US PCAOB and we understand that convergence may be an issue. However we do have some concerns as follows.

It is not absolutely clear what will be the basis for deciding whether a requirement is a "shall" or a "should". It is stated in paragraph 4 that these verbs relate to professional requirements. However, it is not clear how these professional requirements are identified and what criteria are used to establish what is a "shall" and what is a "should". It could be presumed that "shall" refers to the "principles" of the standard and "should" to an essential procedure following from the principle. However, we see some indications in the ED that the "shall" is considered to be a general procedure for all circumstances and "should" as a more specific procedure which may not be applicable in all circumstances. Given this ambiguity, we urge the Board to define the two verbs in the glossary detailing not only what they mean in terms of requirements but also what they represent (i.e. principles or rules).

Non-native English speakers argue that the sole difference between both types of requirements is that a departure from a "presumptive requirement" is acceptable in rare circumstances. They wonder whether this difference justifies the use of two words (see also question 6). In this respect, it may be good to recall that international financial reporting standards consistently use "shall".

We have an additional concern. In the standards there is extensive use of the phrase, "the auditor should consider". The status of "should consider" with regard to documentation is unclear. In paragraph 4, it is stated that a "should consider" means that consideration is presumptively mandatory, but the action or procedure is not. It is important that these points be clarified with respect to documentation requirements.

CEBS      The proposed categories would seem to clarify the obligations on auditors and therefore aid consistency in the approach to audit. However we do have some concerns regarding the language used and the issues that may arise in translation, though we believe our concerns could be overcome (see question 6). We also have a concern about the use of the phrase 'should consider'.

The distinction between 'shall' and 'should' is not always clear to a non-English speaker and, indeed to English-speakers from different countries. We provide more detail on this aspect in answer to Q.6.

In the standards (and indeed in the example presented) there is extensive use of the phrase, 'the auditor should consider.' In paragraph 4, it is stated that a 'should consider' means that consideration is presumptively mandatory, but the action or procedure is not. The documentation requirements of 'should consider' are not clear to us. From the wording we could assume the auditor must document if they have 'not considered' the procedure or action – which seems a rather weak requirement.

Respondent	Respondent Comment
	Surely it is the actual matters considered that should be documented, not the consideration.
CIPFA	There seems little doubt that the proposals will result in a significant increase in the number of mandatory requirements. We note that the illustrative examples include very few cases where the present tense is interpreted as anything other than a mandatory requirement. Since in practice this increase will have a very considerable effect on the work of professional accountants, we firmly believe it should not be implemented until the IAASB has considered the consequences more fully than it appears to have done at present (we comment below in response to question six, on the proposals for use of the words 'shall' and 'should'). In general, if the IAASB intends or at least accepts that the proposed changes will lead to a considerable increase in the number of mandatory requirements, this should be put forward as an issue for consideration in its own right, rather than as a by-product of proposals that are claimed to improve the clarity of drafting.
CNCC-CSOEC	As mentioned above in the general comments, The French Institutes do not support the "codification of the language" side of the project if it is not carried out together with at least some aspects of the "restructuring" side of it.
	If both aspect of the project are carried out together, they consider that the proposed categories of professional requirements are acceptable provided the "shall" requirements are only used when referring to a fundamental principle underlying an ISA audit.
CPA Aus	Yes, with qualification. CPA Australia believe the proposal brings clarity to what is required, and may eliminate the current confusion about distinguishing between requirements and guidance. It is also important to note that Australian auditing standards will become legal instruments and therefore this process will provide for an easier transition for the Australian Auditing and Assurance Standards Board (AUASB).
	CPA Australia generally agree with the proposed categories of professional requirements. CPA Australia would however like to see greater alignment with PCAOB Rule 3101: Rule Regarding Certain Terms Used in Auditing and Related Professional Practice Standards.
	The major difference between the PCAOB and the IAASB is that the PCAOB includes a third category 'responsibility to consider'. This is important as it highlights matters that explicitly require the auditor's attention, and distinguishes it from other explanatory text within auditing standards.
	We also support convergence of terminology and recommend the usage of 'unconditional responsibility' instead of 'requirements' and 'presumptively mandatory responsibility' instead of 'presumptive requirements'.
	In addition, we believe the IAASB should use only a single descriptive word in the ISAs, as we consider that such consistency will avoid confusion. For example for 'unconditional requirements' the IAASB should use the word 'must'. We feel that the word 'must' is more prescriptive than the word 'shall'. This treatment is also consistent with the PCAOB.
	In the longer term, inconsequential differences should be avoided as they unnecessarily complicate the objective of achieving a single set of internationally accepted

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auditing standards. We also note that different wording is commonly interpreted to imply different requirements.

DnR      We agree that the proposed categories, absolute and presumptive, will improve clarity. However, we need a more precise basis for the separation of the professional requirements into the two categories. If the number of absolute requirements are too extensive, the effect may not be sufficiently flexible, given the wide range of entities with variation in size and complexity, that is covered by the standards.

DT      Provided that the “fundamental principles underlying an ISA audit” are clearly distinguished from individual standards, and that the “shall” requirements are only used when relating to such principles universally applicable whatever the circumstances, we think that the proposed categories of professional requirements and the related obligations are acceptable.

EC      We agree with the approach proposed by the Board. The auditing standards should provide a minimum level of legal certainty to the users.

EY      We do not agree with the categories of professional requirements proposed in the Policy Statement.

In our view, the use of a single level of professional requirement, with reasons for (rare) departures documented, is clearer and leaves less scope for confusion and interpretation. In addition, it may simplify the process of developing standards, by helping to reduce the debate as to whether a professional requirement is a ‘should’ or a ‘shall’. See paragraphs 7 to 12 above for the reasoning supporting our response.

FAR      Clarity regarding the professional requirements is fundamental in standard setting. Therefore, in principle, identifying “requirements” and “presumptive requirements” with the proposed related obligations would be reasonable. It is critical how IAASB uses these tools in the practical standard setting (see Introductory comments above and our answers to questions 3 and 7 below).

FEE      FEE is concerned that the proposals may have unintended consequences, specifically of breeding a box-ticking approach that is the opposite of the thoughtful professional approach that is required to achieve high standards of quality. For further details, we refer to our main comments on “the use of presumptive requirements.

GT      We support the Proposed Policy Statement, including the proposed categories of professional requirements and the obligations they would impose on professional accountants. To help ensure consistent application and to improve the quality of audits, it is essential to distinguish the professional requirements from the explanatory material.

Further, the two categories of professional requirements clarify and define the professional accountant’s obligations relating to a specific requirement. These categories are appropriate, as certain requirements should “always” be fulfilled, while others would be fulfilled in “almost” all cases. This allows for professional judgment to divert from the presumptive requirements where deemed necessary by the professional accountant. (Also see our response to question 3 below.)

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H3C	Under the French & European law, all standards are normative and quasi-legislative, with no distinction between different requirement levels. It would be incomprehensible to distinguish the requirements (into mandatory/presumptive with “shall”/“should”) as it would merely create confusion amongst the statutory auditors by opening the standards to interpretation. The need for distinction in requirement levels is best avoided.
ICAEW	<p>The proposed categories of professional pronouncements, which are very similar to those adopted by the PCAOB, are understandable and tolerably clear, however, operationalising these requirements gives rise to the following important issues:</p> <p>i) The number of professional requirements</p> <p>The proposed Policy Statement states that some believe that the proposals will result in a significant increase in the number of professional requirements. It is hard to conclude that there will be any other result in the light of:</p> <p>(a) the illustrative examples given in which there are few if any cases in which the present tense is ‘translated’ as anything other than a professional requirement. 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;</p> <p>(b) the current climate in which it will be very tempting to adopt an ‘if in doubt, mandate’, approach; we believe that the illustrative examples demonstrate this tendency all too well and that much greater consideration should have been given to permitting auditors to consider the application of a procedure, rather than effectively mandating it;</p> <p>(c) the fact that it seems likely that the fundamental principles referred to in the Consultation Paper, which are intended to act as a Framework from which professional requirements will ‘hang’, seem unlikely to be finalised by the proposed implementation date (periods commencing on or after 15 June 2005). This in turn means that IAASB is likely to find itself determining the distinction between professional and other requirements on an ad hoc basis.</p> <p>We also consider that IAASB should have a much better idea than it does at present as to the likely extent of additional mandatory requirements before implementing these proposals.</p> <p>We therefore strongly recommend that the proposed implementation date be deferred. If the implementation date is not deferred, we urge great caution on the part of those developing standards when determining whether to create a professional requirement. Professional requirements can always be tightened up. It is much less easy to relax requirements after the event.</p> <p>ii) Reversal of the current position and proximity of ‘shall’ and ‘should’</p>

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The proposals involve a reversal of the current position in which the word ‘should’ is generally understood as meaning ‘must in all circumstances, without exception’. It is proposed that ‘should’ in future will mean ‘must in all circumstances, with rare exceptions’. If these proposals are to be implemented as they stand, it will be necessary to emphasise this change.

The distinction between the meanings of the words ‘should’ and ‘shall’ are not clear in everyday English, even for those with English as a first language. At best, they are closely related and are likely to cause some confusion. We see no good reason for not using the word ‘must’ instead of ‘shall’ in order to make a clearer distinction between the two types of professional requirement.

Even so, to the extent that a ‘should’ is a ‘shall’, except in rare circumstances, we doubt whether the distinction between the two terms is useful. And to the extent that the likely substantial increase in the number of ‘shalls’ and ‘shoulds’ is in conflict with the objectives-oriented approach to standard-setting, we suggest that much greater consideration be given to the use of alternative terms that permit the auditor to use his or her judgement.

iii)      The new ‘present tense’

The use of the phrase ‘in all cases where the relevant circumstances apply’, attached to the description of both ‘shalls’ and ‘shoulds’ is important because without it, auditors would be effectively required to engage in a great deal of wholly unnecessary documentation of the reasons why a professional requirement has not been applied where it is simply not applicable. On the other hand, the use of the phrase without further guidance as to how auditors should determine what is relevant and what is not, can be seen as amounting to a de facto retention of the present tense status quo, because the phrase can be easily understood as meaning ‘ordinarily’ or ‘if necessary’ (i.e. the way in which the current use of the present tense is sometimes interpreted).

Whilst overall, we consider the phrase essential to avoid unnecessary box-ticking, the issue demonstrates the urgent need referred to elsewhere in this letter for a properly thought out objectives-oriented approach to standard-setting.

ICAI      We agree with the proposed categories for professional requirements and related obligations as they are clear, concise and easily understood. They will eliminate the current ambiguity readers of the standards are required to deal with in relation to the applicability and authority of statements in the standards.

ICANZ      We agree with the proposed categories of professional requirements and the related obligations they would impose on accountants.

It is important that the IAASB establish and publicise clear criteria for determining whether a requirement is a professional requirement or whether it is a presumptive requirement.

As noted in the proposed policy statement it is expected that it would be a rare for a professional accountant to depart from a presumptive requirement. In addition the discussion on presumptive requirements (paragraph 4 of the proposed policy statement) states that a professional accountant may depart from a presumptive

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	<p>requirement provided that the professional accountant documents why the departure was necessary and demonstrates how the alternative procedures were sufficient to achieve the objectives of the presumptive requirement.</p> <p>We suggest that the proposed policy statement be amended to emphasise that departures are expected to be rare and to establish clear principles or criteria to guide professional accountants in deciding when it may be appropriate to depart from a presumptive requirement</p>
ICAP	<p>In an ideal scenario, categories of professional requirements can be broadly broken down into 'do' and 'don't'. In this respect, proposing the two categories of requirements and presumptive requirements is a commendable step by IAASB. By presenting these two categories IAASB is trying to eliminate all sorts of uncertainties in the application of standards as there are few options remaining after standards specify 'shall' and 'should' in their sentences.</p> <p>Now we should concentrate on the consequences of these categories. Introduction of these categories is certainly going to be subject to interpretation of a special kind. In previous scenarios, the interpretations concentrated on whether it was applicable or not. In the current scenario, accountants would argue on the adoption of requirements or presumptive requirements and would certainly try to advocate the application of presumptive requirements where ISA might provide certain leeway in the form of rare circumstances and sacrifice extra documentation. The use of "Shall" would certainly increase the workload on auditors in the performance of their functions, precisely the reason they would be inclined to opt for the presumptive regime.</p> <p>In the end we would agree with the two categories of requirements but at the same time would not be hesitant in presenting our apprehensions on the resultant reluctance on the part of accountants.</p>
ICAS	<p>The proposed categories of professional requirements will give auditors a clearer view of what is expected, in comparison to the status quo. However, we have concerns about the clarity of the definition for 'presumptive requirements' and therefore recommend that steps are taken to improve the wording in addition to any revisions to the definition which arise from the consultation process.</p> <p>We also have a number of concerns about how the proposals will work in practice.</p> <p>The Explanatory Memorandum (page 8) anticipates an increase in the number of professional requirements contained within international standards as a consequence of introducing the categories now described as 'requirements' and 'presumptive requirements'.</p> <ul style="list-style-type: none"> <li>• We believe that a significant increase in professional requirements will increase the level of prescription and therefore move international standards further away from a principles based approach to standard setting. This is likely to increase the risk that a compliance mentality will take hold, with an audit being treated as a box ticking exercise, and less focus will be placed on professional judgment. The risk will be further increased during peak periods when audit resources are scarcer: auditors will be more inclined to comply with the letter rather than the spirit of the standards thereby missing opportunities to improve audit quality.</li> </ul>

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- Significant increases in professional requirements may not necessarily result in improvements in audit quality commensurate with the additional burdens likely to be placed on practitioners, especially smaller practitioners and those practitioners auditing organisations which are not listed companies or other public interest entities.

Therefore, we believe that it is reasonable to expect the IAASB to quantify the likely increase in the number of professional requirements before going forward with the implementation of these proposed changes. This will enable the IAASB to make a more objective assessment about whether the proposed Policy Statement will result in comparative improvements in audit quality.

We agree with the use of the phrase ‘in all cases where the relevant circumstances apply’ on page 6 of the Explanatory Memorandum. The application of this phrase to both ‘requirements’ and ‘presumptive requirements’ will obviate the need for auditors to document unnecessarily the reasons why a professional requirement is not applicable. However, we have the following specific concerns about the professional requirements:

- We do not agree with the use of the phrase ‘in rare circumstances the professional accountant may depart from a presumptive requirement,’ also on page 6 of the Explanatory Memorandum, as this weakens the distinction between ‘requirements’ and ‘presumptive requirements’ and therefore leans towards a more rules based approach to standard setting. None the less we recognise that a departure from a presumptive requirement in applicable circumstances should not be common place and we recommend the introduction of the following wording: ‘the professional accountant may, in circumstances judged by an experienced auditor to be appropriate, depart from a presumptive requirement.’
- We understand there may be difficulties translating ‘shall’ and ‘should’ into some other languages on the basis that separate words do not always exist. This could greatly hinder the adoption and/ or implementation of international standards worldwide and we can see no reason why ‘must’ could not be used instead of ‘shall’, provided that the difference between ‘must’ and ‘should’ translates into other languages.

ICPAK      Yes I do. The proposed professional requirements will ensure that the professional accountant does his/her work carefully and comprehensively since the obligation laid upon him/her by these requirements is greater than it is currently.

IDW      We support the IAASB’s intention to clarify the professional obligations of professional accountants in the ISAs using explicit levels or categories of obligation. However, we are not in favour of how the proposed categories are described and implemented and how they are incorporated into the standards in relation to other material.

As noted previously, we believe that the primary obligation imposed on professional accountants in standards should be the achievement of objectives, rather than the obligation to comply with requirements or presumptive requirements, which are only the means of achieving objectives.

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We suggest that these obligations are in fact categories of “professional obligation” rather than categories of “professional requirements” because it is inaccurate to speak of two or more “levels” or “categories” of requirements: by definition, the use of the word “requirement” encompasses the thought that a matter or action is “compulsory” or “mandatory”. On the other hand, the word “obligation”, while suggesting duty or responsibility (and encompassing either or both), does allow for different degrees of compulsion. Therefore, we suggest that the policy statement speak of categories or degrees of “professional obligation” rather than of “professional requirements”.

We also have some difficulty with the use of the term “presumptive requirement”, because it represents an oxymoron. We recognize the purpose of the term is to convey the thought that a matter or action is presumed to be required, but a presumed requirement means that the requirement itself is a presumption. Consequently, we suggest that the term “presumptive requirement” be replaced by “presumption”.

Furthermore, under the proposed Policy Statement, IAASB pronouncements implicitly contain more than two noted categories or levels of professional obligation. In the last sentence of paragraph 4, the proposed Policy Statement includes the responsibility of a professional accountant to consider the explanatory and other material that provides guidance for the application of the requirements and presumptive requirements. Moreover, pursuant to paragraph 21 of the Preface in conjunction with the proposed Policy Statement, professional accountants would also have an obligation to be aware of and consider Practice Statements applicable to the engagement, and be prepared to explain how the professional requirements in the standard addressed by the Practice Statement have been complied with when the guidance in the Practice Statement has not been applied.

Based on our previous suggestions, we contend that the different categories of obligation would therefore include:

Objectives

Requirements

Presumptions

Application material

Other considerations (guidance, good practices and examples)

As we mentioned previously, the use of different levels of obligation cannot be separated from drafting considerations relating to the structure of IAASB pronouncements. Application material represents the explanatory material (definitions, descriptions and other explanations) required to provide a context so that the objectives, requirements and presumptions in the standard can be understood and applied. This application material must therefore be included as part of the standard because a professional accountant must consider the application material to be able to apply the objectives, requirements and presumptions.

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However, to represent effective and unambiguous statutory instruments, these obligations should be clearly separated from the obligation for professional accountants to be aware of and consider other considerations that represent guidance, good practices and examples. Therefore, these other considerations ought to be incorporated into Practice Statements rather than standards.

*The use of requirements and presumptions in IAASB standards*

In our view, a Policy Statement on the use of such terms also ought to define how the IAASB intends to incorporate these obligations into the standards and the concomitant responsibilities of the IAASB in this context. In particular, we note that a professional accountant is required to comply with a requirement in all cases in which the circumstances exist to which the requirement applies. It is therefore incumbent upon the IAASB to ensure that the circumstances to which requirements apply are clearly defined and that no exceptions to the application of a requirement in those defined circumstances exist; i.e., when the circumstances exist to which the requirement applies, there are no cases where an alternative other than the requirement adequately achieves the objective generating that requirement. On this basis, the frequency of use of requirements ordinarily ought to be very low within any one standard, for the existence of a single counterexample suffices to negate the need for a requirement unless the circumstances that would otherwise have generated the requirement are amended.

Consequently, we are of the opinion that the Policy Statement ought to include a commitment by the IAASB to clearly define those circumstances to which a requirement applies. Furthermore, the Policy Statement should also include a commitment by the IAASB to ensure that a requirement applies in those defined circumstances without exception, which means that when the circumstances exist to which the requirement applies, there are no cases where an alternative other than the requirement adequately achieves the objective generating that requirement. Furthermore this commitment should encompass the conclusion that therefore the frequency of use of requirements within any one standard ordinarily ought to be very low.

Part of the discussion above applicable to requirements also applies to presumptions. In particular, it is important that the IAASB make a commitment in the Policy Statement to define as clearly as possible those circumstances to which a presumption applies. Furthermore, if the IAASB retains the departure threshold “rare”, the IAASB would also need to make a commitment in the Policy Statement to ensure that the presumption applies in those circumstances except in rare cases, which means that when the circumstances exist to which a presumption applies, it is rare that an alternative other than the presumption adequately achieves the objective generating that presumption. However, we believe that the threshold “rare” may not be appropriate.

In our view, the danger is that, if the IAASB sets the threshold too stringently (i.e., rare exceptions, rather than, for example, just unusual ones), the sets of circumstances covered by requirements and presumptions collectively will be too narrow and in fact would weaken IAASB standards as opposed to strengthening them. This is because such a narrow coverage of sets of circumstances leads to the standards not covering circumstances to which a presumption could apply because exceptions to the presumptions are unusual rather than rare. The circumstances not covered might, in fact, be those for which professional accountants may need direction and which have currently been included in the IAASB standards using present tense.

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The obverse danger is that the IAASB defines the frequency of departures from presumptions as rare, even though the circumstances to which presumptions apply lead to the incidence of presumptions not being the only adequate means of achieving the objectives to being significantly greater than just rare (i.e., unusual). This would lead to professional accountants either 1. applying presumptions even though there may be alternatives that achieve the objectives generating those presumptions more effectively than those presumptions achieve their objectives or 2. not applying presumptions in more cases than regulators, external quality assurance authorities and enforcement authorities anticipate, which in turn may lead to dysfunctional regulatory or enforcement action to force the application of presumptions even when they are not necessarily the only or best means of achieving the objectives generating those presumptions.

Consequently, we believe that the threshold in relation to the compliance with presumptions has been set too stringently. Hence, in our view, if, in unusual (as opposed to rare) circumstances, a professional accountant chooses to depart from a presumption, the professional accountant must document how the application of the alternatives adequately achieve the objectives generating that presumption and thereby overcome that presumption (which is presumably why the professional accountant had chosen to depart from the presumption).

*Application material and other considerations*

Given the role for application material that we have suggested, such material must be considered when achieving objectives and applying requirements and presumptions. In other words, the consideration of the application material is required, whereas its role in achieving the objectives and applying the requirements and presumptions depends upon the circumstances.

On the other hand, it does not appear to be possible to apply a presumption to consider a matter (“should consider”). This is because, if one applies the presumption, one must have considered it. On the other hand, if one does not apply the presumption, one must also have considered it to reach the conclusion that it need not be applied, unless the IAASB takes the position that, in rare circumstances, it is acceptable to ignore a presumption to consider a matter. We suspect that ignoring application material, even in rare circumstances, is not what the IAASB intends. Consequently, a presumption to consider a matter does not appear to be a logical proposition for application material.

Other considerations (guidance, good practices and examples) incorporated into Practice Statements represent matters, when applicable to the engagement, which professional accountants should be aware of and consider (in these circumstances, “should consider” for other considerations makes sense, because a professional accountant may choose to ignore the presumption to consider a Practice Statement). This would have the advantage of clearly delineating the application material that a professional accountant must consider from the other considerations that a professional accountant should consider. In line with this, when the considerations in an IAPS 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 perhaps presumptions, satisfied.

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	<p>We refer to the Appendix, which contains our proposals for suggested wording for the Policy Statement to implement our suggestions.</p>
IOSCO	<p>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.</p> <p>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.</p>
IRE	<p>In principle, the IRE has no objection to the introduction of the so-called ‘requirements’ (‘shall’) and ‘presumptive requirements’ (‘should’ / ‘should consider’), provided that:</p> <ul style="list-style-type: none"><li>- the number of professional requirements will NOT increase significantly, compared to the number of professional requirements already comprised in the existing ISAs, especially in the new audit risk model ISAs (ISA-200, 240, 300, 315, 330 and 500) ;</li><li>- an auditor can deviate from a ‘presumptive requirement’, which allows for the necessary flexibility in the circumstances of the audit engagement ;</li><li>- the IAASB makes use of the ‘should consider’ presumptive requirement more often than a ‘shall’ requirement, which allows for the flexibility in the circumstances of the audit engagement.</li></ul> <p>The IRE believes that the ‘requirements’ (‘shall’) section could be strengthened from a ‘principles-based’ perspective, if it were to reflect the so-called fundamental principles, as mentioned in questions (7) and (10) of the consultation paper (cf. infra). This could also be seen as a guarantee that the number of ‘shall’-requirements remains limited.</p>
JICPA	<p>Generally, we agree with the proposed categories of professional requirements and related obligations.</p>
KPMG	<p>We agree with the ‘requirements’ and ‘presumptive requirements’ categories and the related obligations they would impose on professional accountants. However, as mentioned above, we believe that the requirements category should be limited to those procedures that directly relate to the fundamental principles underlying an ISA audit.</p>
NASBA	<p>The proposal differentiates between two categories of professional requirements: requirements and presumptive requirements. Requirements are identified by the word “shall” and presumptive practices by the word “should.”</p> <p>The Committee notes that the descriptions of guidance in the Consultation Paper are similar to and in harmony with those in Rule 3101-“Certain Terms Used in</p>

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	<p>Auditing and Related Professional Standards” of the Public Company Accounting Oversight Board (PCAOB). Requirements are similar to the unconditional responsibilities of Rule 3101, and presumptive requirements are similar to the presumptive mandatory responsibilities of Rule 3101.</p> <p>The Committee believes that the auditing profession would be assisted if the language in the Consultation Paper were adopted. This would bring the language for international standards into substantial conformity with the language of the PCAOB’s auditing standards for public companies. If the word “shall” presents translation difficulties, the use of the word “must,” or the phrase “is required,” could be used to facilitate translation.</p>
NIVRA	<p>We do not agree with the IAASB’s proposal to develop categories of professional standards.</p> <p>In our view the differences between the proposed categories is too small. Where the auditor is not allowed to depart from a requirement, the auditor may depart from a presumptive requirement only in rare circumstances. So it will be very unlikely that an auditor would depart from a presumptive requirement. In addition, it will be very hard to make a distinction between ‘shall’ and ‘should’ in the translated version, see our response to question 6 below. As a result, we believe the proposed definition of a presumptive requirement effectively puts them on the same level of authority as a requirement.</p>
PAAB	<p>We do not agree with the distinction between ‘requirements’ and ‘presumptive requirements’. As mentioned above, an auditor will apply professional judgment in determining his or her responsibilities and complies with the requirement irrespective of the description of the requirement.</p> <p>It is not clear why there should be a distinction if a departure from presumptive requirements will only arise in ‘rare circumstances’. It is also unclear as to why the documentation of such departure should then be more rigorous than before, given the rarity of such occurrences.</p>
PwC	<p>We do not agree with the proposal to develop categories of professional standards. As noted in our covering letter, when we tried to apply the proposed wording conventions to ISA 505 and ISA 570, we found it very difficult to decide if a requirement should be a mandatory “shall” versus a presumptively mandatory “should”—which demonstrated to us that trying to distinguish between requirements and presumptive requirements has little, if any, merit.</p> <p>Furthermore, we have concerns with the definition proposed for a presumptive requirement.</p> <p>The Policy Statement proposes that an auditor may depart from a presumptive requirement only in rare circumstances. The reference to “rare circumstance” indicates that it will be considered highly unusual for an auditor to depart from a presumptive requirement and the documentation required if the auditor does perform alternative procedure(s) is quite onerous. As a result, we believe the proposed definition of a presumptive requirement effectively puts them on the same level of authority as a requirement. Establishing such a high threshold, together with the related documentation requirements, could have a negative impact on audit quality by requiring undue emphasis on compliance rather than a focus on achieving the objective of the procedure—particularly if there is an increase in the number of presumptive requirements as anticipated.</p>

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We suggest defining presumptive requirements as requirements with which the auditor is expected to comply, and acknowledging that auditors can depart from them as long as the audit documentation demonstrates how the alternative procedures met the objectives of the requirement (as discussed further in our response to Question 4). By removing the reference to “rare circumstance”, the presumption remains that the requirement will be followed, but auditors will be able to use professional judgement to achieve the desired objective in the particular circumstances in other ways, whilst retaining appropriate documentation of any departure.

This approach is supported by our alternative model for a conceptual framework that provides an appropriate frame of reference to guide the application of professional judgement by auditors in designing and performing audit engagements to achieve the objective of the audit. Auditors would always be expected to apply the concepts underlying the audit process and expected to comply with specific requirements but should be allowed to depart from those requirements as long as they are able to demonstrate how they met the objectives through alternative procedures.

RR      I do not agree with the proposed categories, although I do not feel very strongly about the matter. On the standard setting side and in dealing with regulators the debate about whether a particular statement should be a bold type requirement or a plain Roman type statement will be replaced with two debates: whether a bold type requirement is to be a “should” requirement or a “shall” requirement, and whether a particular statement should be a bold type requirement or a plain Roman type statement. In short, the IAASB will double the areas of disagreement both internally and with regulators.

I also believe that having two categories will inevitably lead to an overall increase in the number of bold type requirements. At present the IAASB has to believe that a requirement is almost essential before it makes the requirement a bold type requirement. Under the proposals the bold type requirements will not need to be so fundamental because it will be easier to justify departures from a bold type requirement. This means that the IAASB will come under greater pressure to turn statements that are currently in plain Roman type into bold type requirements.

3. Do respondents believe that the proposals will improve the quality and consistency of audits? Please state the reasons in support for your response.

AASB-CICA      We believe that the proposals will improve the consistency of audit work relating to newly issued standards. Revising existing standards that are currently unclear using the new categories will improve the consistency of work in relation to those standards. Whether the proposals will otherwise improve the quality of audits is unclear. We do believe, however, that the requirement to document departures from presumptive requirements will indirectly improve the quality of audits because auditors will carefully consider any deviation from such requirements.

ACAG      We believe the proposals will improve the quality and efficiency, but not the consistency of audits.  
The quality of audits will be improved by clearer explanation of the requirements of professional accountants. Allowance for departures from ‘presumptive

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	requirements' will allow for some flexibility and use of professional judgment so professional accountants can comply with the principles of the standard, without the need for the standard to be overly prescriptive. This may also lead to inconsistent approaches taken to address issue/s across audits. Such inconsistency may be appropriate given the particular circumstances of the audit/issue but in such cases the departures must be clearly documented in the audit working papers.
ACCA	We do not believe that these proposals, on their own, will measurably improve the quality and consistency of audits. Indeed, if ISAs become excessively rules-based they will detract from the application of judgement that is the sign of a good audit.
APB	No. APB fears that the proposals will lead to an overwhelming number of requirements that will be applied with a 'check list mindset'. The APB believes that a quality audit results from experienced practitioners being motivated to adopt a sceptical approach rather than the application of a large number of detailed 'process' rules. Indeed the APB believes that the application of a large number of detailed rules by changing the nature of an audit is likely to act as a disincentive to experienced practitioners adopting a thoughtful judgemental approach to audits. If this happens APB believes that the quality of audits will be reduced.
AUASB	We believe the clarity proposals potentially enhance auditors' understanding of their responsibility to comply with specific requirements in auditing standards. Accordingly, there is potential to reduce divergence, which should improve the quality and consistency of audits.
Basel	See comments in response to question 2 above.
CEBS	<p>Though we believe that the proposals could improve the quality and consistency of audits, subject to some suggested further clarifications, we have some concerns over the basis for deciding whether a requirement is a 'shall' or a 'should'.</p> <p>It is stated in paragraph 4 that these verbs relate to professional requirements. However, it is not clear how these professional requirements are identified and what criteria are used to establish what is a 'shall' and what is a 'should'. We would assume that the 'shall' requirement could be the 'principles' of the standard and 'should' is an essential procedure following from the principle. This may be equated to 'shall' being a general procedure for all circumstances and 'should' a more specific procedure which may not be applicable in exceptional circumstances. However, without some framework of fundamental principles, it is not clear how it is decided what is a 'shall' and what is a 'should' in each of the auditing standards. Without some framework of fundamental principles it will be difficult to apply the distinction in an agreed, sustained and manageable way. This relates to our comments on Q8 in the consultation paper.</p>
CIPFA	The proposals may lead to some improvement in quality at the very bottom, by making it more difficult for auditors under extreme time or client pressures to 'cut corners' by omitting necessary procedures. However, in our view this factor is more than outweighed by the risk that more diligent auditors will be forced to divert resources away from important areas of judgement towards 'box ticking' simply in order to demonstrate compliance, while the less diligent may perform only the

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absolute minimum work in order to fulfil the mandatory requirements. In both cases, the result could in fact be a reduction in overall audit quality.

CNCC-CSOEC      The French Institutes do not believe that the proposals on the codification of the language alone will improve per se the quality and consistency of audits, on the contrary (see general comments above).

CPA Aus      Yes. Clarifying requirements reduces confusion and therefore must lead to improved quality and consistency. The proposals will potentially enhance the auditors understanding of the extent of their responsibility to comply with specific requirements in auditing standards, which should reduce inappropriate divergences in the application of auditing standards.

DnR      We believe consistency will improve as a result of a clearer presentation of the professional requirements. We believe the quality of audits will improve as a result of the requirement to document any deviations from the presumptive requirements.

DT      As modified by our recommendations we believe the quality and consistency of audits will be facilitated by the new definitions of requirements. We believe the resolution of the present tense should take place as part of a plan to revise standards over a 5 year period using principles for determining the specificity of requirements determined by the board as suggested in our recommendations.

EC      We anticipate that by stating mandatory requirements, the proposals will improve consistency of audits, including within the EU. Therefore, in our opinion, this is not bound to solely improve the audit quality which depends rather on ethics, professional behaviour and judgement.

EY      We believe that the proposals to use bold text together with related guidance will improve the quality and consistency of audits, as will the departure from the use of the present tense to describe actions by the professional accountant. However, as discussed in paragraphs 7 to 12 above, we have concerns about two levels of professional requirements. We believe that having two levels of professional requirements will not aid clarity or understanding, and, particularly where the standards are translated or used by non-native English speakers, may lead to differing interpretations and confusion.

FAR      The proposed professional requirements alone would not improve the quality. Critical for that, we believe, is that the users see and feel that the professional requirements are reasonable in a standard setting that has principles and professional judgement as fundamentals for the practical performance of the audit.

We believe, based on our proposals in the Introductory comments section above, that a better quality driver than imposing and counting (an extensive number of; compare the Introductory comments above and our answer to question 7 below where such a risk is anticipated) professional requirements in an ISA, is to put the

Respondent	Respondent Comment
	<p>ISA into context by clearly stating the thinking behind the standard, i.e. to state</p> <ul style="list-style-type: none"> <li>• the objective of an audit and the role of the specific ISA in question in that context,</li> <li>• which fundamental principles of an audit that are relevant considering those objectives and, as a consequence,</li> <li>• which professional requirements would be necessary to impose to achieve the objective and considering the fundamental principles identified and</li> <li>• the areas covered by the standard where the use of professional judgement is particularly relevant and</li> <li>• all that in a general language at the beginning of each ISA.</li> </ul>
FEE	<p>FEE is of the opinion that the proposals as included in the Proposed Policy Paper deviate from the “principles-based” or ”objectives-based” approach which IAASB has supported hitherto. Were International Standards to become excessively descriptive and too rules-based or “detailed procedures-based”, with unduly burdensome documentation obligations, it can be expected that the quality of the audit may decrease rather than increase.</p>
GT	<p>As stated in our response to question 1 above, we believe that the Proposed Policy Statement sufficiently and adequately describes the professional accountant’s responsibilities. By doing so, the Proposed Policy Statement distinguishes the professional requirements from the explanatory material and therefore, promotes consistency in application. Further, the categories of professional requirements that describe the degree of responsibility imposed on professional accountants also enhance the quality of audits by “mandating” the performance of certain essential procedures on all engagements. As the proposals do not eliminate the need for professional judgment, they improve the quality and consistency of audits, while providing flexibility based on the circumstances of a particular engagement.</p>
H3C	<p>It is to the contrary that the proposals would improve the quality and consistency of audits. The creation of several categories in standards which in turn contain several different terms to express mandatory/presumptive requirements would only lead to judicial and financial insecurity by opening gateways to all kinds of interpretations by statutory auditors.</p>
ICAEW	<p>We believe that the proposals will improve the quality and consistency of some very large and very small audits, but only marginally. On some very large audits, where pressures on resources are greatest at critical periods, there may be a temptation to deal with bold type requirements only and to apply the requirements currently described in the present tense to situations in which there is time to fulfil them. This is likely to be case where the use of the present tense is not well-understood or easily translatable. The same considerations apply to some very small audits.</p> <p>Furthermore, as noted in many of our responses to IAASB on the longer and more complex standards recently issued, we believe that there is a very real risk that</p>

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	diligent auditors will be forced to divert audit resources away from judgemental areas towards compliance issues which might actually result in a degeneration in overall audit quality.
ICAI	We believe that the proposal will improve the quality and consistency of audits by eliminating the ambiguity in relation to the authority of statements in the standards and by clarifying what is required and what is presumptively required.
ICANZ	To the extent that the proposed categories will clarify the status of the various requirements we consider that the proposals will contribute to improving audit quality.
ICAP	<p>Introduction of these categories would certainly broaden the scope of audits with a resultant improvement in the quality and consistency of audits. Previously circumstances were taken as the benchmark for the performance of particular steps but the current change would present a different point of view to circumstances and their existence. Shall applies to all situations where the relevant circumstances apply but Should applies to all cases where circumstances exist.</p> <p>The mere fact that audits would be conducted in light of certain guidelines gives credibility to the idea but at the same time, time and cost involved in complying with these requirements should also be kept in mind. IAASB should be very careful in assigning ‘Shall’ and ‘Should’ to specific requirements so as to ensure that these do not become too onerous for the accountants.</p>
ICPAK	<p>Yes I do. The proposal is in order since it does state in paragraph 5 that a professional accountant should represent compliance with International Standards only upon complying with all relevant professional requirements of the International Standards. Therefore if a professional accountant has not complied with the applicable professional requirements of a particular International Standard in full he/she will not be allowed to state otherwise.</p> <p>These requirements also mean more work must now be done by the professional accountant.</p>
IDW	We do believe that clarifying the professional obligations of professional accountants in the ISAs using explicit levels or categories of obligation ought to improve the quality and consistency of audits. Certainly, the current proposals will increase the consistency of audits, but, as our general comments to both the Exposure Draft and the proposed Policy Statement, and our answer to question 2 indicate, we have some reservations about whether the proposals will actually improve audit quality. We have stated the reasons for these reservations therein.
IOSCO	<p>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.</p> <p>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</p>

Respondent	Respondent Comment
	to mandatory and presumptive requirements, will aid in understandability and will facilitate correct and consistent application.
IRE	<p>As stated in our general comments, the IRE believes that a proposal based on a principles-based approach will undoubtedly contribute to high quality audits and a higher degree of consistency, in focusing the fundamental principles of an audit.</p> <p>However, the IAASB should be very careful not to disturb the balance between a minimum of rules and the principles that are to be applied in the context of the audit engagement. For instance, an enumeration of procedures that the auditor may apply in the context of the audit engagement should nor be part of a 'requirement' nor of a 'presumptive requirement': the burden associated with the need to document why 10 to 20 audit procedures or tests weren't executed, is of such a dimension (especially in audits of smaller or less complex entities) that it would definitely NOT contribute to the quality of audits, as it distracts the auditor from executing his work towards the more formal documentation requirements, without adding any value to the audit evidence supporting the audit opinion. Those enumerations belong, in the opinion of the IRE, to appendices or at a minimum to the application material (and not to the standards section). Instead of using the words 'shall' or 'should', the IAASB should consider using the wording 'it is best practice that the auditor (does something)', which is clearly different from a requirement.</p>
JICPA	<p>We believe that the proposal for professional requirements will improve the consistency of audits. The two categories of professional requirements would result in increased mandatory audit procedures without professional judgments. We have a concern that such increase would lead the auditor to perform audit procedures like a check lists without a reasonable understanding of the objective and/or purpose of the audit procedures. Consequently, we are afraid that the quality of audit might not improve.</p>
KPMG	<p>We believe the proposals, assuming the requirements category is limited to fundamental principles that form part of an overall Framework, will help improve the quality and consistency of audits. Clarification of the IAASB's intent with respect to grey lettered text currently written in the present tense should lead to more consistent interpretation of International Standards by auditors, especially in countries where ISAs are translated into another language.</p>
NIVRA	<p>Yes, we believe that the proposals to use bold text together with related guidance will improve the quality and consistency of audits.</p> <p>The proposals should remove any ambiguity that exists regarding the professional requirements with which auditors are expected to comply and their intended relative authority. As we have stated in paragraph 1 above we observe that there is potential ambiguity regarding the relative authority of bold and grey lettering and for that reason we support IAASB's proposals to clarify the authority of the professional requirements, explanatory material and appendices of the ISAs and other pronouncements.</p>
PAAB	<p>We believe that the current proposals may improve the clarity of the standards, but probably only marginally in comparison with the effort required to complete the project successfully. There is also no assurance that the objective of improved clarity will be achieved and there is still the risk that the results of the project may in fact detract from the clarity of the language in which the standards are written. Considerable attention is paid at present in the exposure process to considering whether the resultant standard or practice statement deals with the subject matter clearly, concisely and comprehensively.</p>

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Another important consideration is the practicalities involved in revising audit methodologies of the audit firms. Every time audit/engagement standards are revised, firms have to update their audit methodologies, audit programmes and audit working papers as well as training programmes, to meet the new requirements. This often results in considerable additional costs without necessarily enhancing the quality of the audit.

PwC

No, we do not believe that the proposals to clarify the professional requirements in International Standards will help to improve the quality and consistency of audits. For the reasons fully explained in our covering letter, we are very concerned that the proposals will, in fact, have a negative effect on audit quality. We are concerned that, if implemented as proposed, the recommendations will inevitably result in much more detailed, procedural-oriented standards and excessive documentation requirements. This would, in our view, negatively affect audit quality because it would inevitably drive behaviour towards a preoccupation with compliance with the standards rather than focus auditor attention on the application of judgement to achieve the objective of the audit. The longer term effects could also include a decline in the quality of people attracted to the profession, which would further impact audit quality. This is clearly not in the public interest.

In our response to the IFAC Survey on Challenges and Successes in Implementing International Standards in June 2004, we observed that some have argued that there is potential ambiguity regarding the relative authority of bold and grey lettering, language conventions in the drafting of the standards (e.g., the use of the present tense), appendices, and Practice Statements. We do not agree with that view but, for the reasons described in our covering letter, we believe nevertheless that there is merit in IAASB 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. Although we are recommending a rather fundamental revision of the ISAs, we reiterate our belief that the existing ISAs provide an appropriate basis for high quality audits with the application of sound professional judgement.

RR

It is difficult to see how the proposals will, in themselves, have any effect on the quality of audits. The quality of an audit depends upon the work an auditor does and the judgement he exercises. The IAASB has not indicated how it expects that auditors' behaviour will change simply because the standards are written in a different manner. This is not surprising as it is difficult to see why behaviour should be affected.

As for the matter of consistency, much depends upon what the IAASB means by that term. If it means that different auditors should always perform the same tests when faced with the same situation then the proposals are bound to reduce consistency because they allow for a greater degree of derogation from bold type requirements. However, I question whether the IAASB should be looking for that degree of consistency in the first place. If, on the other hand, the IAASB means that different auditors should give the same audit report when faced with the same situations then that is a different matter.

Assuming that the IAASB means the second type of consistency then it is not clear how that type of consistency can be improved at all. The main complaints seem to surround auditors who issue unmodified reports in circumstances where other auditors would issue a modified report. However, in most cases this has been because of the auditors' perceived failure to follow auditing standards rather than a deficiency of some sort in the wording of the standards. It is always possible for a negligent auditor to hide behind ambiguities in standards, but removing the ambiguities does nothing about the underlying negligence it merely reduces number of

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hiding places. In any event, I do not see that the proposals in themselves will do anything to increase or decrease ambiguities in the IAASB’s standards.

The overall effect of the changes would seem to be the converting of some plain Roman paragraphs into bold type requirements whilst making it easier for the auditor to justify non-compliance with many bold type requirements. It is therefore difficult to see whether this will improve consistency or not. It will certainly improve the consistency of work carried out by that subset of auditors who follow the standards blindly and unthinkingly. However, whether it will affect of the quality of reporting by causing auditors to think more deeply about what they are doing is difficult to determine.

I also have doubts that the standards will be implemented consistently under the proposals as currently drafted. The proposals indicate the IAASB’s belief that departures from presumptive requirements will be rare but do not indicate on what that belief is based. The requirements of the ISAs need to be considered as an integrated whole designed to achieve particular objective; they should not be regarded as separate requirements each with their own aim that by coincidence happen to lead to an effective audit.

The current situation is that a departure is permitted only where it is necessary to achieve the object of an audit more effectively. This seems to be the right standard. The test should not be whether a particular requirement can be carried out more effectively but rather whether the audit as a whole can be carried out more effectively. Furthermore, the proposals do not limit departures to only those cases requirement can be met more effectively an other way. They allow departures on to any occasion the auditor wishes to meet the requirement a different way irrespective of whether that way is more or less efficient. All the auditor has to do is to say how a requirement has been met.

If the IAASB wishes to make sure that departures are rare then it needs to set down criteria against which the auditor has to judge the need for a departure.

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 in the circumstances were sufficient to achieve the objectives of the presumptive requirement? Please state the reasons in support for your response.

AASB-CICA      We support the requirement for the professional accountant to document departures from a presumptive requirement. Results of PCAOB and Canadian Public Accountability Board inspections of accounting firms indicate that documentation is one of the areas of weakness in current audits. The existing requirement for auditors to “be prepared to justify the departure” appears therefore not to be clear enough.

ACAG              Notwithstanding our comments above about how allowing for departures from ‘presumptive requirements’ may lead to inconsistent approaches in audits, we do agree with the proposed requirements to document such departures.

This approach would require professional accountants to explicitly consider whether the alternative procedure(s) performed were in fact sufficient to achieve the

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objectives of the presumptive requirement. The approach also aligns with the requirements of ISA 230 *Documentation*.

ACCA      It is counterproductive to require an auditor not only to document what was done but also to document why something was not done. Such activity could be necessary only in relation to unconditional responsibilities that the auditor decided were not relevant and for which, therefore, no other procedures were performed.

APB      APB supports the logic of a documentation requirement although believes that IAASB should revisit the specifics of its proposal regarding the documentation requirement. APB believes practitioners will find it difficult to explain why they have departed from ‘the objectives of the presumptive requirement’ if those objectives are not themselves set out in the ISA. The APB believes that the ‘fundamental principles of auditing’ could provide a framework for justifying departures.

APB observes that existing ISAs contain a number of ‘should consider’ requirements and suggests that IAASB should clarify the documentation requirements relating to these. In relation to the ‘should considers’ it is not the consideration (or not) that needs to be documented but the nature of the matters considered and the conclusion reached.

AUASB      We support the documentation requirements, as they are generally consistent with PCAOB Rule 3101, and indeed, most probably in practice departures from a ‘should’ requirement is perhaps only likely when in the circumstances compliance would be impracticable or unduly burdensome. Therefore, departures are only expected in rare situations.

Basel      Documenting why an auditor has not followed a presumptive requirement is a good discipline for the professional accountant. This element ensures that the auditor has covered the procedural requirement involved and, if not, provides explicit reasons why not. It also presents a clear record for others in the audit firm and public oversight boards of the audit work done. We therefore support the proposed approach of documenting any departures, but, we also refer to our comment about the documentation requirements of “should consider” above (question2).

Some consideration needs to be given to how these documentation requirements will fit with those set out in ISA 230 on audit documentation. In particular, if there is not a requirement to document performance of a procedure, but a requirement to document why the procedure has not been followed, this would lead to lack of consistency within the standards.

CEBS      Auditing can be an opaque process to users of financial statements. Recent financial scandals have led to concerns about the quality of the audit. Any move which can be seen to clarify the work done for the audit, can aid auditors in exercising their professional judgement, and can also aid public oversight bodies in exercising their monitoring of the audit process, will add to the credibility of the audit process.

Documenting why an auditor has not followed a presumptive requirement is a good discipline for the auditor to ensure that they can justify why they have not followed the requirement involved. It also presents a clear record of the audit work done for others in the audit firm and public oversight bodies. We would therefore support this proposed requirement. There should be a justification of the reasons for the departure and a description of what was applied instead.

Respondent	Respondent Comment
CIPFA	We expressed our concern in (2) above over the implied increase in mandatory requirements. If this concern proves to be well-founded- as we believe it will- a requirement to document all departures from presumptive requirements will create a great deal of additional work for the conscientious auditor with no corresponding benefit in terms of audit quality, whereas others will probably just state that ‘the relevant circumstances do not apply’ and thereby avoid the need to document the departure. Under existing UK standards, the auditor is required to justify departures from what are in effect ‘presumptive requirements’ ( which are relatively few in number) if challenged by an inspector or reviewer or in a court of law, and the knowledge of this imposes a powerful discipline. This in our view is sufficient.
CNCC-CSOEC	<p>The French Institutes consider the documentation requirement imposed in the case where an auditor decides not to apply a “should” requirement is unduly burdensome. They have already expressed this view when the same requirement was to be introduced in the Preface and they are still of the opinion that if an auditor considers that he/she has to depart from a “should” requirement, he /she should be ready to justify the reason why and how he/she has met the objectives of the requirement .</p> <p>Reverting to the “should be ready to justify” position seems therefore much better than imposing a documentation requirement on the non application of a “should”.</p> <p>In general, the French Institutes consider that the issue of documentation is the most important one in the debate on the applicability of ISAs to the audit of SMEs. The level of detail of the documentation required is one area where it might be useful to distinguish between the audits of SMEs and the audits of larger entities.</p> <p>Footnote: The French Institutes believe that the documentation requirement for the non application of a “should” requirement has a fatal flaw in the case of a “should consider” requirement. Indeed, if the requirement in the case of a “should consider”, is the consideration of the issue, then overriding such a “should consider” would lead the auditor to document the non consideration of the issue, which is a nonsense since it means that he/she would have to document why he/she did not think about the issue. This reasoning, pushed to the extreme, would mean the wording must be either “shall” or “may consider”, but never “should consider”.</p>
CPA Aus	Yes. Audit documentation should demonstrate compliance with professional standards and provide an explanation to justify the reasons for any variations in procedures performed. In addition, this requirement is consistent with PCAOB Rule 3101 which states that “the integrity of the audit depends, in large part, on the existence of a complete and understandable record of the work performed, the conclusions reached and the evidence obtained to support those conclusions.”
DnR	Yes. It will require the auditor to clearly document his evaluations and clearly state in his documentations why he departs. A requirement to document will safeguard a satisfactory evaluation. We therefore believe that such a requirement will increase the quality of audits. However, we are concerned that this can be perceived a requirement to document the obvious. Only matters of consequence to the understanding of the decision to depart from a presumptive requirement should be required to be documented.

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<b>Respondent</b>	<b>Respondent Comment</b>
DT	<p>Yes; to be implemented as we recommended as part of adopting the proposed definitions and applying them to the existing standards. We see no substantive reason not to apply the proposed definition of presumptive requirements “should” to the existing usages of “should” in the basic principles and essential procedures in the existing standards. In and of itself this would clarify that the use of the present tense does not establish a presumptive requirement. We are not aware that “shall” or “must” are used in the existing standards in the context of establishing performance obligations for the auditor.</p>
EC	<p>We fully support the logic of documenting departures. But, keeping in mind the objectives of the EU with the “better regulation” project, we would like to see in parallel the Board developing drafting guidelines and enforceable criteria for the use of the proposed requirements.</p>
EY	<p>We agree with the proposal that, when departing from a professional requirement, the professional accountant should document why he or she decided to depart and how the alternative procedure(s) performed achieved the objective of the professional requirement.</p> <p>However, we suggest that the objective(s) of all professional requirements should be clear, to ensure that, where a professional accountant develops alternative procedures, he or she can ensure that he or she has done so in respect of the relevant objective(s). In many circumstances, the objective of a professional requirement is clear – for example, where the objective is to provide audit evidence about a single balance sheet assertion - and, in this case, the professional accountant could be sure that the alternative procedures adopted were sufficient and would satisfy internal and external reviewers - and regulators. In other circumstances, a professional requirement may have multiple objectives, in which case, the standard should explicitly state what the objectives are, to ensure that the professional accountant will develop procedures to adequately address all the objectives.</p> <p>In addition, the professional requirements in each standard should consist of those requirements that would be expected to be relevant and applicable to every audit. If the number of professional requirements extends into too many prescriptive procedures, the applicability of auditing standards to all sizes of audit may be such that the teams on smaller audits are spending valuable time explaining why a requirement is not applicable to the engagement.</p>
FAR	<p>We believe that the present requirement regarding departure from an ISA requirement is well balanced and good enough. This specifically related to smaller audits, where a more thorough documentation requirement related to departure from a requirement is impractical and inefficient.</p>
FEE	<p>FEE does not agree with the proposed documentation requirements in case of departure from a presumptive requirement.</p>
GT	<p>We agree with the IAASB that the proposed documentation requirement “...responds to the public interest and is appropriate for what should be a rare occurrence.” We further believe that this requirement is also necessary for the convergence and acceptance of an international set of standards.</p> <p>Accordingly, we support the requirement for the professional accountant to document his or her departure from a presumptive requirement, including the reasons for departure and how the alternative procedures were sufficient to achieve the related objective. (Also see our response to question 5 below.)</p>

Respondent	Respondent Comment
	<p>However, it is important to note that certain conclusions are readily determinable from the work performed or are evident from a review of the financial statements (e.g., immaterial account balance). Therefore, in accordance with paragraph 5 of the Proposed Policy Statement, it is our understanding that the professional accountant need not document their departure from a presumptive requirement where the circumstances do not exist or where the matters to which the presumptive requirement applies are immaterial. As such, we suggest that the IAASB clarify this matter in the Proposed Policy Statement.</p>
H3C	<p>Our position is against the idea of the creation of “presumptive requirements” which would allow a departure in the standards as it would create financial and judicial insecurity through open interpretation.</p>
ICAEW	<p>The proposed requirement to document departures from presumptive requirements is likely to create a great deal of additional work without corresponding benefits in terms of audit quality. In practice there is likely to be little difference in the perceived status of ‘shalls’ and ‘shoulds’, precisely because of this requirement. The proposals are likely to create a considerable additional number of such requirements. We do not believe that any audit failure is the result of a failure to understand the status of the present tense, nor do we believe that any audit failure will be prevented by a requirement document a departure from a presumptive requirement. Audit failures generally involve a failure of judgement rather than process which need to be addressed by emphasis on the quality of judgement in auditing standards, and by improvements to the quality of the education and training of auditors. Therefore, we do not agree with the proposed requirement to document departures from presumptive requirements.</p>
ICAI	<p>We agree with the proposal in principle but caution whether the level of documentation on smaller audits will become excessive and will not lead to improved audit quality. The success or failure of this requirement will be dependent on the nature (principle or rule based), granularity and scope of the requirements and presumptive requirements and their scalability across the size and nature of clients audited by professional accountants.</p>
ICANZ	<p>We do not agree with the proposal to require auditors to document departures from presumptive requirements. We believe that the current requirement is adequate and is workable. That is in exceptional circumstances where a professional accountant judges it necessary to depart from a basic principle or essential procedure a professional accountant may do so, and the professional accountant should be prepared to justify the departure.</p> <p>We understand the rationale for documenting departures from presumptive requirements. To the extent that professional accountants are required to specifically document and justify departures from presumptive requirements they are less likely to make such departures in the first instance.</p> <p>However, we have a number of concerns regarding this proposal as follows.</p> <p>Firstly, discouraging professional accountants from departing from presumptive requirements may have the unintended consequence of adversely affecting the quality of audits in certain situations. Professional accountants may choose to comply with the specific presumptive requirements of a standard rather than incur the cost and risk of departing from a presumptive requirement, even where an alternative procedure may improve the quality of an audit.</p>

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Secondly, we are concerned regarding the practicality of this requirement. We believe that documenting such departures will not be a simple process and that many professional accountants will not so do. In addition we believe that enforcement will be difficult.

Finally we believe that requirements set out in ISA 300 Planning an Audit of Financial Statements are adequate to ensure that auditors properly plan an audit and document the procedures undertake. ISA 300 requires the professional accountant to:

plan an audit so that the engagement will be performed in an effective manner;

develop an audit plan to reduce audit risk to an acceptably low level; and

document the audit plan.

Requiring an auditor to separately document departures from presumptive requirements is in our view superfluous. We are not convinced that the proposal will improve the quality of audits or improve consideration of the public interest.

ICAP      We understand the fact that IAASB is targeting to ensure that there are minimum differences in interpretations of standards and all standards (in their entirety) should be read in the true spirit.

The applicability of presumptive requirement where the circumstances exist would be required to be complied with in all cases. Since departure would take place only in rare circumstances in which case alternative procedure(s) would be performed to achieve the objectives of the presumptive requirement, it would be pertinent for the auditors to document the reasons behind his decision and the professional judgment used in departing from the said requirement to reflect his competence, integrity and independence in such a situation.

Therefore, the requirement appears to be reasonable that departure from a presumptive requirement should need to be mentioned/ documented clearly otherwise it might become a tool most often used by accountants to depict rare and unusual circumstances.

IDW      We are not in favour of the 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 in the circumstances were sufficient to achieve the objectives of the presumptive requirement. In line with our answer to question 2, we believe that if a professional accountant chooses to depart from a presumption in unusual circumstances, the professional accountant must document how the application of the alternatives adequately achieves the objectives generating that presumption and thereby overcomes that presumption. There is no need to specifically document why the professional accountant departed because professional accountants would only choose to depart when the objectives have been adequately achieved by means of the departure.

Respondent	Respondent Comment
ICPAK	<p>Yes I do. Reason - In auditing personal judgment is very critical, if a professional accountant feels that the only way to achieve the desired results (objectives) is by use of alternative procedures other than what has been prescribed in the proposed professional requirements then this should be allowed as long as it does not compromise the quality of the work done. Further the accountant must be prepared to justify the departure.</p>
IOSCO	<p>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).</p> <p>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.</p> <p>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.</p> <p>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.”</p> <p>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.</p> <p>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</p>

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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.

IRE      The IRE agrees with the IAASB on this subject, as it facilitates the documentation of the significant professional judgments made by the auditor in the circumstances of the engagement. If an auditor chooses to apply alternative methods than the ‘best practice’ methods upgraded in the ISAs to become ‘standards’, he should be prepared to justify this departure not only orally but also in writing.

The IRE recommends the use of a ‘should consider (doing something)’ approach, since it facilitates the professional judgment made by the auditor, without aggravating the documentation requirements. In our view, the ‘should consider’ requirement implies a reasonable documentation requirement, since it is the auditor’s professional judgment that drives the audit procedures to be executed, and since the auditor has the opportunity to consider the ‘(doing something)’ and, depending on the circumstances of the audit, can decide not to ‘(do something)’.

In general, the IRE considers that the issue of documentation is the most important one in the debate on the applicability of ISAs to the audit of SMEs.

JICPA      We agree with the proposed requirement for the professional accountant, when departing from a presumptive requirement, to document the reason for the departure and alternative procedures because the exposure draft ISA 230 (Revised), Audit Documentation, (paragraph 2) requires that the professional accountant should prepare audit documentation that is sufficient and appropriate to demonstrate that the audit was performed in accordance with the ISAs and applicable legal and regulatory requirements.

KPMG      We agree with the proposed requirement to document departures from a presumptively mandatory requirement, assuming it relates to a matter that is relevant and not insignificant to the specific circumstances of the audit being carried out. We agree that the documentation requirement should include the rationale for a departure

Respondent	Respondent Comment
NIVRA	<p>and how the alternative procedure performed achieved the objective of the presumptive requirement. However, we also believe that the proposed Policy Statement should explicitly state that the auditor is not required to document departures that relate to matters that are not relevant or significant to the specific circumstances of the audit being performed.</p> <p>We agree with the proposed requirement that the auditor should document the reasons of a departure from a professional requirement and how the alternative procedure(s) performed was sufficient to achieve the objectives of the professional requirement.</p> <p>On the other hand, we are concerned that if the professional requirements in the ISAs will not be limited to those requirements relevant and applicable to every audit, audits of small and not-complex entities can not be performed cost-effective due to documentation reasons.</p>
PAAB	<p>We do not support the distinction between ‘requirements’ and ‘presumptive requirements’ and therefore the documentation of departures from ‘presumptive requirements’ is not applicable.</p> <p>We do remind the IAASB, however, of its decision not to document departures from Standards when the Preface was revised and re-issued and it might be necessary to ensure consistency with the Preface.</p>
PwC	<p>As noted in our response to Question 2, broadly speaking we do agree that professional accountants should document how any alternative procedures performed achieve the objective of the requirements. However, we do so in the context of our proposal that the ISAs be fundamentally rewritten as objective-based standards supported by a conceptual framework. We would be very concerned if this requirement were applied to the existing body of ISAs, particularly if the existing ISAs are “retrofitted” with the proposed drafting conventions, as we believe doing so would result in excessive documentation requirements that will not add value to the audit process and will detract from audit quality.</p> <p>In our view, the primary purpose of audit documentation should be to support the conclusions reached in an audit. It is a record of audit procedures performed and relevant audit evidence obtained. Accordingly, where the auditor has departed from a presumptive requirement and performed alternative procedures, we support the requirement that the auditor should prepare audit documentation that is sufficient and appropriate to provide a record of the basis of the auditor’s work. We are not, however, convinced of the merits of documenting why the professional accountant decided to depart from a presumptive requirement where the documentation of the alternative procedure demonstrates how the objective of the requirement has been achieved.</p> <p>We also believe that auditors should only be expected to document departures from requirements that are relevant in the particular circumstances of the audit engagement. The proposed Policy Statement is unclear in this regard and we encourage IAASB to clarify its intent. Our concern is that the current proposals could be interpreted as requiring the auditor to document departures from presumptive requirements that are not relevant in the circumstances. Yet doing so would be very onerous in audits of small, non-complex entities for which many of the ISAs are simply not be relevant. The cost/benefit of such a requirement does not seem</p>

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supportable.

RR                      Although I am not generally in favour of specific documentation requirements I agree that an auditor who departs from a presumptive requirement should document the reasons for the departure and the alternative procedures performed. This is because the requirements of the ISAs set down the rules within which the auditor works. If the auditor wishes to change those rules he should not be allowed to make things up as he goes along. He should be required to write down both the reasons and the new rules to which he will adhere.

The imposition of the proposed documentation requirement will, however, mean that the IAASB will have to say what the objective of each presumptive requirement is. The auditor can hardly be expected to document how the alternative procedures he has adopted meet those requirements unless he is told what those requirements are. If the IAASB does not do this then different auditors might not always arrive at the same objective as each other or as the IAASB itself had in mind. (I note in passing that the illustrative examples in the consultation document do not always set out the objectives of presumptive requirements, which indicates that it may not be easy for the IAASB to do so in future.)

5. Do respondents agree with the applicability of the proposed documentation requirement to departures from existing International Standards before they are revised? Please state the reasons in support for your response.

AASB-CICA            The proposal is that the documentation requirement will apply to departures from the basic principles and essential procedures of the existing International Standards. If the intent is that the documentation requirement will only apply to bold type material (because paragraph 16 of the Preface indicates that basic principles and essential procedures are identified in bold type lettering) we would support the proposal. We believe that when existing standards are revised using the new categories of professional requirements there will be rare circumstances, if any, when an existing bold type requirement will be relegated to explanatory material. Accordingly, there appears to be little downside to the proposal to apply the documentation requirement to departures from existing International Standards before they are revised. Our only concern with the proposal in these circumstances is that there may be existing basic principles and essential procedures where the wording is such that the professional accountant is unclear when he or she has departed. The effect of the proposal might therefore result in professional accountants who seek to avoid contravening the documentation requirement unnecessarily increasing the amount of documentation in their files until such times as existing standards are revised.

However, if it is not the intent that the documentation requirement be limited only to bold type material we would not support the proposal. This is because certain plain text in existing standards may be converted to bold text and, until the existing standard is revised, the practitioner may not recognize the need to document departures from the existing professional requirements.

In our view, the documentation requirement should apply only to existing bold type material and the IAASB should make it clear that this is the intent.

Respondent	Respondent Comment
ACAG	We agree with the applicability of proposed documentation requirement to departures from existing International Standards before they are revised, as this would lead to better practices by professional accountants in developing/preparing their audit working papers.
ACCA	We believe that it would be confusing to introduce a retrospective requirement. As set out above, we are not convinced that specific documentation is always necessary.
APB	No. As explained in 4 above APB believes that the 'fundamental principles of auditing' should provide a framework for justifying departures. The APB does not believe that the documentation requirement should be introduced until these have been promulgated.
AUASB	In view of the IAASB's proposal to review ISAs on a prospective basis, documentation obligations regarding departures from ISAs should only apply to departures from the basic principles and essential procedures in those standards, that is, the 'black letter' requirements.
Basel	<p>This would seem reasonable.</p> <p>However we have a concern as in some of the current standards, "should" is used in footnotes and grey type lettered paragraphs, and in some of the older standards it is unlikely that "should" would have been drafted with the view that it is to be considered "presumptively mandatory" (A good example may be ISA 520 on analytical procedures, paragraph 2.) . It is more likely that they would be mandatory. Therefore, we reiterate our concern about the need to define the two verbs in the glossary detailing not only what they mean in terms of requirements but also what they represent (question 2).</p>
CEBS	<p>Though we would support the proposed additional documentation requirement (for the reasons provided in response to Q4 above), we do have some concern with this proposal as currently worded.</p> <p>In paragraph 10 of the proposed policy it is stated that the 'existing description of the authority and conventions of the International Standards contained in the Preface will remain applicable, except as noted below, to existing International Standards.....' (Italics added for emphasis).</p> <p>In the next paragraph, paragraph 11, the documentation requirement is then laid out for departures from the basic principles and essential procedures of the existing standards. The paragraph goes on to state, 'the requirement for a professional accountant to justify departure from a presumptive requirement (or a basic principle or essential procedure) in writing is effective.....' (Italics added for emphasis).</p> <p>Though we understand that the aim of the change is merely to add a documentation requirement for any departures, we are concerned that the wording may now imply that departures from the basic principles and essential procedures are more acceptable. Therefore our concern is that the current wording in these two paragraphs, particularly the parts highlighted above in italics, may lead to a weakening of the current requirements in the standards.</p>

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CNCC-CSOEC    No

CPA Aus        Yes. As we understand the Policy Statement, it is only basic principles and essential procedures (black letter requirements) contained in existing standards that will carry the status of presumptive requirements until such time as the relevant standards are revised in line with the proposed policy statement. Therefore this requirement will not place any greater burden on auditors in Australia, for in Australia if you depart from a basic principle or essential procedure the auditor must explain the departure in the auditor's report.

DnR            We refer to FEE's comment to this question. Our opinion is that only necessary to document departure from a required International Standard where the procedure is relevant and satisfactory alternative procedures have not been performed and documented.

DT             Yes; to be implemented as we recommended as part of adopting the proposed definitions and applying them to the existing standards.

EC             No, because the existing standards were drafted using other conventions than those introduced by "Clarity". This is one of the reasons why we support a retrospective application of Clarity.

EY             We agree with the proposal that the documentation requirement for departures from existing International Standards should apply before they are revised.

FEE            Our separate letter of comment on the Proposed ISA 230 (Revised) "Audit Documentation" will argue that it is only necessary to document departure from a required International Standard where the procedure is relevant and satisfactory alternative procedures have not been performed and documented.

We also refer to our main comment above on the "Basis of application" for the Proposed Policy Paper where we express our preference for "the first approach" whereby clarification and restructuring of ISAs will be finalised by IAASB at the same time.

We do not believe it is necessary for the adoption of the existing ISAs to impose a new requirement to document departures from existing standards; the existing documentation requirements will suffice. Instead IAASB should focus on the clarification and restructuring exercise and on the finalisation of the revised ISA 230.

GT            Existing standards clearly stipulate, in bold type lettering, the basic principles and essential procedures that should be adhered to by the professional accountant. They also require the professional accountant to be prepared to justify a departure from such principles and procedures. Accordingly, the incremental requirement to document the justification for departure is not onerous; as such basic principles and essential procedures are deemed "presumptive requirements" where departures are expected to be rare.

H3C            As mentioned in (c) above, we are against the idea of the creation of "presumptive requirements" for reasons abovementioned.

Respondent	Respondent Comment
ICAEW	No. See answer to Question 4 above and to Question 7 in Appendix 1
ICAI	We agree with the proposal in principle but caution that as the ISA's were written without the concept of required or presumptively required procedures. While reviewing the proposal we did not identify any significant issue but as this review was superficial we recommend that a full review of the existing standards be performed to ensure that the requirement to document from existing standards will not result to excessive documentation due to the lack of clarity over what is presumptively required in the existing standards.
ICANZ	As noted above we do not agree with documentation proposal.  However, if the documentation requirement is implemented we believe it should be applicable to all ISAs, including those ISAs that are yet to be revised. The proposed documentation requirement is part of a broader policy on applying ISAs. We believe that it is important that the suite of ISAs is applied in a consistent manner. We do not therefore consider it appropriate that the proposed requirement apply to certain audit standards and not others.  The ISAs that have not been revised will not adopt the proposed approach differentiating between requirements and presumptive requirements. If the IAASB decides to implement the documentation requirement it will be important that the IAASB include clear guidance as to how it expects professional accountants to apply the documentation requirements to those ISAs that have not yet been revised.
ICAP	Proposed changes in this ED would have effects on other standards as well and the procedure adopted by IAASB for not updating the standards issued before the approval of these changes (though quite confusing) appears to be the most practical way as (rightly perceived) the updation would take a considerable time and might have an adverse effect on other IAASB projects.  The documentation of departures from the requirement of existing international standards before they are revised would mean documentation of departures from existing basic principles and essential procedures. This would involve efforts to be made once at pre revision stage which would be limited to bold text and then later at post revision stage limited to presumptive requirements which would appear in plain type text.
ICPAK	Yes I do. However the departures should be based on the existing ISA's. The need to change is a clear manifestation of the desire for better results. The earlier the results can be obtained the better.
IDW	Given the close relationship between the categories or levels of obligation of professional accountants and the structure of IAASB pronouncements, we believe that retrospective application of both the proposed Policy Statement and of a restructuring of the ISAs is necessary. In these circumstances, the proposed applicability of the proposed documentation requirement to departures from existing standards is not relevant.

**Respondent      Respondent Comment**

However, if retrospective application of the Policy Statement and of a restructuring of IAASB standards does not take place, we do not believe in changing the degree of obligation associated with basic principles and essential procedures, but would agree to strengthening the documentation requirement in relation to departures from them.

The reason for our not being in favour of changing the degree of obligation associated with basic principles and essential procedures is that the current standards were exposed and issued based upon the requirements in the current Preface (paragraph 17). The current Preface states that in exceptional circumstances (as opposed to rare circumstances), a professional accountant may judge it necessary to depart from a basic principle or essential procedure of an Engagement Standard to more effectively achieve the objective of the engagement. The basic principles and essential procedures were incorporated into the engagement standards based upon an understanding of a certain degree of obligation being imposed upon professional accountants. Amending the requirement in the Preface from „exceptional“ to „rare“ circumstances would substantially change this degree of obligation without changing the circumstances for which the obligation applies, which we believe not to be appropriate without providing stakeholders with the opportunity to examine, consult, analyse and comment upon the impact of this change on every basic principle and essential procedure in IAASB engagement standards. Consequently, we believe that the threshold for departing from basic principles and essential procedures in the unrevised IAASB engagement standards ought to remain “in exceptional circumstances” as opposed to a “rare occurrence”.

On the other hand, we do support the strengthening of the documentation requirement so that professional accountants document departures from basic principles and procedures in the same way that they would document departures from presumptions as noted in our answer to question 2 above, because this would strengthen the quality of audits by putting the onus on the auditor to document how the alternative achieved the objective.

IOSCO      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.

<b>Respondent</b>	<b>Respondent Comment</b>
IRE	<p>The IRE believes that only one set of principles within ISAs can exist. The existence of two separate sets of ISAs (old and new style ISAs) can NOT contribute towards the quality of auditing.</p> <p>This means that, whatever the final decision by the IAASB is on the restructuring option of the ISAs, the IRE proposes to the IAASB to adjust the 'old style' ISAs to the newly decided upon structure as a priority.</p>
JICPA	<p>We propose that the proposed documentation requirement for departure should be applied to the departure from the ISAs which will be issued after the Exposure Draft is finalized because the existing ISAs are not prepared in the style of two categories of professional requirements. The presumptive requirement, for which the documentation for departure is required, is not apparent in the existing ISAs.</p>
KPMG	<p>We agree with the proposal to early implement the documentation requirement relating to departures from existing International Standards. However, this documentation requirement should only apply to basic principles and essential procedures (i.e., bold text in the current standards) that are relevant and not insignificant to the specific circumstances of the audit being carried out. We agree that the need for such departures should be rare and that it is in the public interest to require auditors to document the rationale for a departure and how the alternative procedure performed achieves the objective of the basic principles and essential procedures. Implementation of this type of documentation requirement will essentially result in clarifying that all bold letters in existing International Standards are presumptively mandatory requirements.</p>
NIVRA	<p>Subject to our concerns regarding the documentation requirements as stated in paragraph 4 above, we agree with the proposal to apply the new documentation requirements to existing International Standards.</p>
PAAB	<p>We refer to our comments under 4 above. Documentation requirements should be consistent with the Preface, which currently does not require documentation of departures from Standards, and to impose this requirement within the suggested timeframe of June 2005 may be unrealistic.</p> <p>It is also important to consider the possible unproductive time and cost implications if auditors are expected to document all departures from presumptive requirements.</p>
PwC	<p>We are uncomfortable applying the new requirements to existing International Standards. We believe that further clarity is needed on the documentation expected, if any, if requirements are not relevant in the audit, and the cost/benefit of the proposals to audits of small, non-complex entities needs further consideration. Furthermore, IAASB should not underestimate the time that may be needed to implement this requirement in audit methodologies and tools—the proposed implementation date for this retrospective requirement could be unrealistic.</p>
RR	<p>I do not agree that the documentation requirement should be extended to existing standards. The criterion for departing from existing standards is different and those</p>

**Respondent      Respondent Comment**

standards were not drafted with the intention that departures from them automatically require particular types of documentation. The IAASB has considered this matter many times, and in each case has decided not to impose such a requirement. The considerations that led to that decision have not changed and are not affected by the fact that a different style of drafting with different criteria for departure ought to lead to some form of documentation requirement.

The requirement in the proposals is to document how the alternative procedures achieve the objective of the presumptive requirement. The requirements in the current standards do not state what their objectives are. Does the IAASB expect the auditor to guess what objectives the IAASB would have had in mind when it wrote the standard if it had known that auditor would be able to depart from the standard in circumstances that he would not have been able to when the IAASB wrote the standard? Given that the threshold for departure under the proposals is lower than the threshold when those standards were originally written it would be difficult to see what the IAASB would have had in mind.

Accordingly, it is my view that the requirement to document departures from ISAs should be imposed only when the ISAs are drafted with such a requirement in mind.

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?

AASB-CICA      We believe that translation difficulties will be minimized as long as the terms used in English are clear and distinguishable. However, we believe that common usages of “shall” and “should” often result in these terms being difficult to distinguish. Accordingly, we recommend that different terms be used. We believe that the IAASB should consider using the term “must” instead of “shall”. In our view, this term is more clearly distinguishable from “should” It is also consistent with proposed PCAOB terminology.

ACAG              The Macquarie Dictionary defines the proposed terms as follows: “must” - indicating inevitability; expressing a conclusion; expressing an insistence on doing something objectionable; (colloquial) something viewed as necessary or vital / “shall” - indicating a future likelihood; expressing intention or expectation, in the first person; expressing resolve, in the second and third person; used in suggestions / “should” - indicating obligation; indicating advisability; referring to a likely event or situation; referring to a remote possibility; in polite phrases.

As shown by these definitions, the word “must” has a stronger meaning than “shall” and “should”, and may more clearly express the IAASB’s intention of requirements to be compulsory.

It is noted that, in considering this matter, the Urgent Issues Group of the Australian Accounting Standards Board adopted use of the word “shall” in preference to “must” or “should”.

Respondent	Respondent Comment
	It is not know if using the term “must” instead of “shall” will lead to translation difficulties.
ACCA	We would prefer the word ‘must’ as there are more translation difficulties with the word ‘shall’; particularly where an attempt is being made to contrast it with the word ‘should’. In view of the need for translation of ISAs, we suggest that IAASB adopts an additional convention for identifying the differences between requirements. This need not be published, but should be available to those who translate the documents.
APB	APB does not have a view on translation but believes that the word ‘must’ is clearer than ‘shall’ in English!
AUASB	We suggest the overriding objective should be to adopt and use terminology consistently to specify a particular requirement, furthermore, terminology used by the IAASB and PCAOB should where possible be consistent. To identify auditors’ mandatory obligations, we recommend that the verb ‘shall’ be used, because it declares an obligatory action and is consistent with that used in International Financial Reporting Standards (IFRS).
Basel	Non-native English speaking members fear an additional complexity in the translation process and are not convinced that the additional translation burden will be outweighed by the additional benefits. They also believe that non-native English speakers do not understand “should” as a “presumptive requirement” (See for example Longman English Grammar where on a scale which reflects a degree of choice, ”should” is at the lowest level of advisability and “must” at the highest level of necessity with different modal verbs in between, including “ought to”, “had better”, “is to”, “need to”, “have to” and “have got to”). Some argue that “must” as an alternative to “shall” may be clearer but will not resolve the translation difficulty, as the more difficult term to translate is “should”, not “shall”.
CEBS	We believe there may be some difficulties in translation. In some countries it is not very common to use this form of subtle distinction between 'shall' and 'should'. Legislation would include either 'shall' (you have a duty to do something) or 'may' (you have permission to do something). A direct translation of the two verbs 'shall' and 'should' may lead to the two different words reflecting an accurate translation, but there might be no difference in how they were interpreted as regards duties or requirements. In both cases, one would assume that the same duty was implied.
	If there was a very clear explanation in a glossary of the meaning of 'shall' and 'should', and what they represent in the context of auditing standards, as well as even clearer elaboration in the preface, this would be of great assistance in ensuring that there are not such difficulties in translation.
	We would not favour the use of the word 'must' rather than 'shall', as 'shall' is used in European legislation to impose mandatory requirements, and using 'must' in the standards could add confusion to any translations.
CIPFA	This proposal is not in accordance with normal use of English and will therefore cause difficulties for those for whom English is a first language, in addition to any problems for those for whom English is not a first language. We accept that the precise distinctions between ‘should’ and ‘shall’ have tended to become blurred in common speech; this however is an added reason why these words should not be used to denote the crucial distinction between requirements and presumptive

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requirements as set out in the proposal. If the IAASB wishes to denote an absolute requirement to which no exceptions are permitted, then the word ‘must’ is the only appropriate term to use in English. For presumptive requirements – where departures are permitted if justified by the circumstances – use of the present tense, perhaps supplemented by ‘normally’ or ‘ordinarily’ would be appropriate. However, if the word must is to be employed in this way, it should be used very sparingly since it effectively removes the element of professional judgement. We would be strongly opposed to the use of ‘must’ for all bold type requirements likely to arise from the present proposals.

CNCC-CSOEC      Yes, the proposed terms “shall” and “should” would result in translation difficulties (see general comments). Use of the word “must”, although clearer in the English language, would not solve the translation difficulties in French.

CPA Aus      As discussed above, CPA Australia believe that one word should be used to describe a mandatory requirement as this results in consistency. CPA Australia would like the IAASB to use the word ‘must’ as we believe this is more prescriptive than ‘shall’ and is consistent with the PCAOB’s preferred wording. We are unable to comment on translation difficulties as these depend on differences between languages and Australia uses the English language.

DnR      To describe the absolute requirements “shall” is acceptable to us. The term “must” as an alternative to “shall” would complicate the translation to Norwegian, as the Norwegian word most closely corresponding to “must”, have already been used in translating the “shoulds” of the existing ISAs which up to now have been very close to absolute requirements.

DT      Yes. The use in the English language of different moods for the modal “shall” (the indicative vs. the conditional) permits to distinguish the respective strength of the requirements. However, translation of “should” by the conditional mood may in certain other languages such as French weaken the strength of the presumptive requirements. Although clearer in English, use of the word “must” instead of “shall” is not likely to resolve the translation problem with respect to “should”.

EC      As stated in the current text of the forthcoming EU Directive on statutory audit, adopted auditing standards shall be published in full in each of the official languages of the Community, in the Official Journal of the European Union. Because of this, translation issues are important matters to consider for the Commission.

The use of “shall” and “should” are part of the English language. The European Community respects each language’s idioms and practice. There is no reason why standards drafted in English should avoid using the full range of options offered by this language, even though this may entail translation difficulties in some of the languages of the Community.

However, from past experience on IAS / IFRS translation, we learnt that some translation difficulties can be better addressed if the English text uses the word “must” instead of “shall”. Indeed, the difference between “shall” and “should” may appear insufficient. The use of “must” could leave less room to misleading interpretation during translation.

Respondent	Respondent Comment
EY	We believe that the translation of the words “shall” and “should” will result in numerous translation difficulties. Not all languages contain simple equivalents for the words “shall” and “should”, in that they do not have words that are as conditional as “shall” and “should” seem to be. See also the further discussion of the use of “shall” and “should” in paragraphs 7 to 12 above.
FAR	If the proposed categories of professional requirements are introduced, we strongly recommend IAASB to use “must” instead of “shall”, as this would facilitate the translation of that category of requirement into Swedish and, we assume, also into other languages.
FEE	<p>After consultation with professional accountants representing the 20 languages of the European Union, it became apparent that the terms “shall” and “should” will result in significant translation difficulties in many countries.</p> <p>Therefore, FEE proposes the use of the term “must” instead of “shall” for a requirement the professional accountant is required to comply with in all cases. “Shall” does not evoke such a strong requirement in a considerable number of languages. Most professional accountants consulted were of the opinion that the term “must” translates in their language as an obligation from which deviation is not possible.</p> <p>However, “must” requirements should be used sparingly for specific audit procedures related to financial statement items. By way of example, it would not be practicable to state that the auditor “must” observe stocktaking procedures at period end. Ordinarily this is desirable and should therefore be considered, however circumstances could prevent attendance.</p> <p>For further details on “should” and “should consider”, we refer to our main comments on “the use of presumptive requirements”.</p>
GT	Although we prefer the word “must”, as it is clearer and stronger, we do not believe that the proposed terms “shall” and “should” would cause any translation difficulties. The Proposed Policy Statement defines each of these terms by describing the obligations they impose on the professional accountant within the context of International Standards. As such, the professional accountant’s responsibilities would be the same regardless of whether the term “must” or “shall” is used. Therefore, each member or regulatory body should be able to translate these terms by either using a word that is equivalent to the terms themselves or to their definitions. In other words, translation should not be an issue, as long as the member or regulatory body adequately defines the terms they will be using.
H3C	These terms would create translation difficulties of the standards into the French language, as it would be impossible to highlight the differences between “must”, “shall” and “should” (to name but a few). It would thus be of no interest even if “must” is used as an alternative to “shall”. The use of alternative words/terms would create insecurity in terms of subtlety in the application of standards.
ICAEW	See answer to Question 2 above.

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ICAI	As we are a predominantly English speaking country it is difficult to comment on translation difficulties, but we believe that the word “shall” is a more appropriate word than the word “must” for inclusion in standards.
ICANZ	We have no comment on possible translation difficulties of the terms “shall” and “should” etc.  However we note that in New Zealand current audit standards use the term “must” because it is considered clearer and much less ambiguous than the terms “should” and “shall”.
ICAP	The word “Must” is understood as one giving rise to a command for compulsory action as against the word “shall”.  Though we agree that translation issues might arise in many jurisdictions relating to use of the words shall and should, yet the suggested approach appears to be most practical in dealing with the issues of bold type lettering and reflects a suitable alternative to the “equal authority statement”.  We feel that using the word “Must” as an alternate to “Shall”, may resolve the translation issues but would rather cause the whole proposal becoming impractical.  We are therefore of the opinion that the word “Must” is not a suitable alternative instead, “Shall” is a better word as it communicates similar meaning and does not fall into a rigid category that “Must” implies.
ICPAK	Yes the use of the word “must” will indeed resolve the translation problem.
IDW	We prefer the term “must” to “shall” for requirements. This is both unequivocal and is simpler to translate into German correctly. However, if the IAASB chooses to use the word must, it will have to be careful not to use “must not” to describe a prohibition, but rather apply the term “may not”.  We also support the use of the term “should” for presumptions because there are no translation difficulties associated with it.
IOSCO	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”.
IRE	The difference in meaning of the words ‘shall’ and ‘should’ is typical of the English language. Similar wording cannot be found easily in other languages, e.g. French

Respondent	Respondent Comment
	<p>and Dutch. Shortcut translations that consist of one word for each term do not exist in our national languages.</p> <p>The IRE understands IAASB's proposition to make use of the term 'shall', in conformity with the vocabulary used by the PCAOB in drawing its rules-based standards on auditing, following the Sarbanes-Oxley requirements in the US.</p> <p>However, the IRE believes that the correct English word to reflect a 'requirement' is 'must' and not 'shall'. The use of the former will not solve any related translation difficulties.</p>
JICPA	<p>Generally, translation of English into Japanese is difficult. Also, a replacement of "shall" by "must" would not substantially eliminate such difficulty in translation. However, we believe that the word "must" would be more understandable for Japanese auditors than the word "shall."</p>
KPMG	<p>Based on internal consultations, the term "shall" is one that is not easy to clearly translate in many languages. "Must" is more clearly understood. We therefore recommend that International Standards use "must" to describe mandatory requirements. We also support use of the word "should" to describe presumptively mandatory requirements since it is already used in ISAs.</p>
NIVRA	<p>We definitely will have difficulties translating the difference between the terms "shall" and "should" in the Dutch language. It is even impolite in our communication with adults to use the translated version of the word "must" to convey a mandatory requirement. We believe that translating is more than translating words, it is translating the making clear the intentions of the requirements. We urge the IAASB to make the definitions and professional requirements as clear as possible, so that translators on their own do not have to interpret the meaning of the wording in the English version.</p>
PAAB	<p>In our opinion the difference is irrelevant as the requirement remains the same. Although translation in our jurisdiction is strictly for convenience, the translation of 'must' will be an easier alternative than the translation of 'shall' and 'should'.</p> <p>It should be noted that auxiliary verbs such as 'shall' and 'should' are not usually used in contexts other than in legal documents. If the standard requires an auditor to follow a certain procedure it should refer to 'must'. In this way, there can be no ambiguity regarding the auditor's responsibility. In the illustrative example (ISA 315) at paragraph 8, for example, the Standard states that the auditor 'shall obtain an understanding ...'. This is not common use language and still does not clarify whether the auditor 'must' obtain an understanding of the entity and its environment.</p> <p>Care should be exercised not to increase the misinterpretation of requirements by the use of these auxiliary verbs and thereby not achieving the desired objective to provide greater clarity.</p>
PwC	<p>For the reasons explained in our covering letter and in our response to Question 2, we do not believe that two categories of professional requirements is workable and, therefore, do not believe there is a need to use two different terms. In our proposed approach to the standards, we would argue that "should" be retained as the</p>

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term used to describe the requirements in the ISAs.

RR      Not being a translator I am not able to say whether those terms would result in translation difficulties. However, it seems to me that the difficulty is not so much whether the word “shall” is better replaced by “must” but whether there is a better alternative to “should”. The word “should” is often ambiguous in English, which may cause translation difficulties.

To my mind the best way to avoid translation difficulties is for the IAASB write in standard, grammatically correct English in a way that makes its meaning clear. Where possible it should avoid sentence constructions in the passive rather than the active mode, and it should be accurate in its use of gerunds, apostrophes and the subjunctive mood. Many regulatory organizations are moving towards the use of plain English in their documents, and the IAASB would do well to follow those moves. However, it is also necessary to bear in mind that it is more important for the standards to yield their meaning unambiguously and precisely than it is for them to yield their meaning easily. This does not mean that standards should be written in a way that is deliberately arcane, quite the reverse, for the sentences that are the easiest to read will usually be those that are the most precise and unambiguous. Rather, it indicates a constraint that binds the use of plain English.

The IAASB’s process of drafting in full session leads to some very long and convoluted sentences. Even native English speakers find these difficult to understand. Appendix 1 gives some examples from a recent exposure draft, comments on them and suggests ways they could be rewritten. Part of the problem comes from the IAASB’s use of mantra phrases such as “in the context of” and “in the auditor’s judgement” in the hope that these will somehow restrict the application of a particular principle. If the document is well drafted and the context of the principle is clear then there is no need for these phrases. If courts or regulators want to extend the principle further than the IAASB would like then those phrases will not stop them. The way that the IAASB has adopted gender neutral drafting has also lead to a decrease in clarity. There are better ways to achieve gender neutral drafting than merely replacing every occurrence of “he” with “the auditor”. The appendix discusses this matter in more detail.

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? Please state the reasons in support for your response.

AASB-CICA      We are not concerned with the prospect of an increase in the number of bold type requirements.

ACAG      We do not have concerns relating to the anticipated increase in bold type requirements on the basis that it will draw attention to all professional requirements.

ACCA      We are greatly concerned that the anticipated increase in bold type requirements will have the effect of transforming auditing from a principles-based to a rules-based activity. By removing much of the requirement for judgement from auditors, an unquestioning mindset is promoted, when the opposite is required in all good auditing. In the long term, ‘tick box’ auditing will deter talented individuals from entering the auditing profession. An increase in the number of bold type

Respondent	Respondent Comment
	requirements would add costs disproportionately to smaller audits.
AICPA	We recognize that there is concern over the expected increase in the number of bold type requirements in the International Standards. We do not agree with the idea that a change in the terminology will increase the number of requirements. There are a number of requirements in the current International Standards that are written in grey letter in the present tense. We believe that many of those grey letter requirements are an integral part of the standard and should be expressed as a “should” statement in the standard to avoid misinterpretation.
APB	<p>Very much so. APB is very concerned that the proposals will (a) lead to a significant increase in the number of ‘bold type’ requirements and, (b) as explained in the response to question 3 above, that the application of a large number of detailed rules may lower the quality of audits.</p> <p>The ISAs relevant to statutory audits contained in the 2003 IFAC handbook contained 255 bold type requirements. A number of these ISAs have recently been updated and this process has resulted in a further 80 bold type requirements (see Appendix 2) and current ‘work in progress’ suggests that this trend will continue. Furthermore, the illustrative draft ‘clarified’ ISA 315 suggests that the number of bold type requirements will increase from 23 to 44. Projecting from these numbers the APB believes that the number of professional requirements in ‘revised’ clarified’ ISAs could easily exceed 1000 and that this would be excessive.</p>
AUASB	The AUASB supports greater specificity and improving the clarity of auditing standards, as this should reduce the possibility of inadvertent non-compliance with auditing standards and enforcement proceedings against auditors in Australia.
Basel	<p>As the bold and grey lettered paragraphs are implicitly of equal status, there should not be such a change in the specificity and level at which professional requirements are set. However, the latest standards do have more current tense requirements (e.g. ISA 315) and therefore, under the clarity project, these will now explicitly become more specific requirements in the standards. However, the increase in number of requirements arises from the more complex situations which the standards are covering (e.g. audit risk) and the way these standards have been drafted.</p> <p>On balance, we believe that more bold type requirements would not raise concern over the specificity and level at which professional requirements are set.</p>
CEBS	<p>The explanatory memorandum states that a statement of ‘equal authority’ is not needed as the clarified wording will make clear that grey and bold text have the same authority. Therefore the current requirements for auditors to perform certain procedures, which may be stated in the current tense in grey text, have the same status as the bold type requirements for auditors.</p> <p>As far as we can see, the proposed changes would move these current tense requirements from grey text to bold type ‘shall’ or ‘should’ requirements which would enhance clarity. Given the statement by the IAASB about the status of bold and grey material, it would not change the number of requirements overall.</p> <p>However, there may be a wider issue here in that there is a concern about the increase in requirements overall in recent standards. The latest standards do have much</p>

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more in the way of current tense requirements (e.g. ISA 315) and therefore, under the clarity project, these will now explicitly become more specific requirements in the standards. However, the increase in requirements in the later ISAs arises from the more complex situations which the standards are covering (e.g. audit risk) and the way these standards have been drafted.

CIPFA      Yes. We are deeply concerned that the likely substantial increase in bold type requirements will detract from intelligent use of judgement, encourage a box ticking mentality and result in a reduction of audit quality. In the UK and many other countries auditors are highly trained professionals and at the core of their training is the notion of professional judgement, what it consists of and how to apply it and defend it in particular circumstances. If this central notion of judgement is downgraded or replaced by a set of instructions, applicable to all audits but necessarily unable to take full account of the circumstances of each particular audit, the inevitable result will be a decline in the quality of personnel engaged in auditing and therefore in the value of the audit itself.

CNCC-CSOEC      Yes, see general comments.

CPA Aus      No, with auditing standards becoming legally enforceable in Australia, increasing the specificity and improving their clarity is important for ensuring auditors more accurately interpret their compliance obligations in relation to auditing standards.

DnR      We find it positive that ambiguity is reduced by increasing the number of bold type requirements. We support the suggested change because of the improved clarity of the term “should”. We believe that auditors should use their professional judgement in selecting the detailed audit procedures to be performed, and that the standards mainly should state the obligations to reach the audit objectives and not describe which detailed procedures the auditor should follow to reach these audit objectives.

DT      As described in our recommendations we do not believe the issue of the specificity and number of requirements will be resolved by the proposal. The IAASB should determine the principles for determining the level of specificity of requirements.

EC      There is somehow confusion between “bold type” lettering and the requirements which it underpins. The authority of the text should lie with the wording itself, not with the font. As such, the increase of bold type text is not an issue per se.

The underlying question seems to be rather about the number of requirements. We have always made clear that we support principle based provisions, proportionate to the objective pursued. We strongly support seeing the Board developing clear-cut drafting guidelines or a framework to define the conditions and criteria for the use of “shalls” and “shoulds”, in order not to miss valid requirements, but also to avoid undue inflation of such use.

In addition, principles based approach is better fitted to multicultural needs, and likely to enhance the convergence of auditing standards throughout the world. Article 45.5 (d) of the current text of the Directive seeks equivalence assessments of standards used outside the EU.

Respondent	Respondent Comment
EY	<p>We are not necessarily concerned that the absolute number of ‘bold type requirements’ may rise, if that is a necessary outcome in order to ensure clarity and rigour. However, we are concerned if any increased number of professional requirements is due to the introduction of a large number of very specific mandatory procedures, akin to a detailed work programme. Once procedures are mandated, instead of basic principles and a number of essential procedures, audit quality may suffer as professional accountants get too involved in carrying out long lists of mandatory procedures at the expense of thinking about and appropriately addressing audit risks. Audit quality may also suffer where the professional accountant follows the specified rules, and uses them as a justification for not going further in carrying out additional inquiries or other procedures.</p> <p>A significant increase in the number of bold type requirements may also have a disproportionate impact on the audits of smaller entities. In order to evidence that the requirement has been followed, the professional accountant needs to evidence that the work has been completed. On a smaller audit, the time needed to document the evidence in respect of a larger number of professional requirements will be proportionately increased, potentially leaving less time for other aspects of work, and hence detrimental to audit quality.</p>
FAR	<p>The nature of an entity’s operation and, therefore, of an audit is such that it is unrealistic to believe that all possible sufficient appropriate evidence-gathering procedures by an auditor could be identified and regulated in an ISA. Therefore, the objective of an ISA needs to be clearly communicated. As has been indicated above (see Introductory comments and answer to question 3), we see a risk of an unjustified increase in the number of bold type requirements introducing the proposed categories of professional requirements without further measures. The measures we are proposing above in our Introductory comments with further elaboration in question 3 above would be the remedy. I.e., in the IAASB standard setting process, any requirement considered should be merited and justified by being related to the clearly stated objective of the ISA and a test if a professional judgement-procedure would be the sufficient appropriate alternative.</p>
FEE	<p>FEE favours “principles-based” or “objectives-based” International Standards but agrees with IAASB that in addition to principles or objectives a number of rules or requirements should be included. FEE accepts this on the condition that the number of bold type professional requirements remains within acceptable limits. However, FEE is seriously concerned that the proposals for requirements and presumptive requirements as included in the Proposed Policy Paper will increase the number of bold type requirements significantly. This is not compatible with a “principles-based” or “objectives-based” standard setting approach. This concern is aggravated by the proposed documentation requirement in case of a departure from a presumptive requirement.</p> <p>We refer to our main comment on “determining the outcome of the proposals”, “think small first” and “the use of presumptive requirements” for further details on our concerns related to the specificity and level at which professional requirements are set.</p>
GT	<p>The anticipated increase in the number of bold type requirements that may arise by adopting the Proposed Policy Statement does not raise any concerns over the specificity and level at which professional requirements are set. We believe that the Proposed Policy Statement achieves the IAASB’s objectives to issue standards that are, among other things, understandable, clear and capable of consistent application, regardless of the size and structure of the public accounting firm or the</p>

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entity subject to the engagement. Such clarity and structure is vital to the global recognition and acceptance of International Standards by regulators, legislators, and the profession.

H3C            Increase in the number of bold type requirements would create difficulties in the understanding of its application. Risk would thus be that the level of the standards would be affected, and confusion amongst statutory auditors who would question the setting of professional requirements.

ICAEW        See answer to Question 2 above.

ICAI            We are very concerned that the level of bold type paragraphs would rise and that the level of procedures that would be presumptively required would grow significantly. Generally any increase in the number of requirements or presumptive requirements which are prescriptive procedures and not based upon principles will impact both the quality and economics of audits. If the standards move towards procedures based standards, thereby remove the thinking approach to an audit, the quality of audit will decline as audits become to a checklist ticking process. The economics of the audit of smaller entities will change as the number of items that the auditor must document increases — this documentation in many cases being documentation as to why the procedure was not applicable. The move from principle based requirements and presumptive requirements to rule based requirements and presumptive requirements will disproportionately impact audits for smaller entities rather than the audit of large complex listed entities.

ICANZ        An increase in the number of bold-type requirements does not of itself raise concern over the specificity and level at which professional requirements are set. The IAASB needs to consider carefully the nature and objectives of the requirements with which professional accountants are to comply. Requirements impose costs in conducting an audit and should be considered in light of the benefits that will be derived.

We do have some concerns regarding the length and clarity of certain of the bold-type paragraphs. We note that the IAASB is working to implement a “plain English” approach in its standards. We support this initiative and believe it will assist the implementation of ISAs, and assist the translation of ISAs into languages other than English.

To ensure writing is clear and easy to understand a general rule of thumb is that the average sentence should be no longer than 25 to 30 words. Technical documents often contain much longer sentences given their nature. However, we note that some sentences in the revised standards are very long and this often makes these documents more difficult to read and understand. For example:

ISA 330, paragraph 44, contains a sentence 64 words long;

ISA 315, paragraph 115, includes a 68 word sentence.

We encourage the IAASB to continue to implement its plain English drafting policy and to work on reducing the length and complexity of sentences in its standards.

Respondent	Respondent Comment
ICAP	This is another apprehension that we have regarding the proposed change. Bold Type sentences are supposed to signify the importance of a particular matter in a standard. A considerable increase in the frequency of bold types might undermine their importance. Additionally, bold type increases could also imply an over reaction on the part of IAASB to specify and bind accountants on every aspect of their conduct and deprive them of basing their judgments on specific situations. This could have a watering effect on those conclusions, which might be appropriate in the absence of a particular guideline by IAASB.
ICPAK	Yes it does. If the longer part of the text will be bold certainly this raise concern on specificity and may make the entire text more challenging and unappealing for the users. There should be away of reducing the bold type text in the proposed Standards requirement. The less the bold section the more appealing it is to the readers.
IDW	As noted in our answer to question 2, if the IAASB applies requirements appropriately in drafting the standards, we believe that the incidence of requirements (“must” or “shall”) within any one standard would be rare.  The incidence of presumptions (“should”) will largely depend upon the threshold applied. As noted in our answer to question 2, if departures from presumptions are a rare occurrence and the IAASB applies presumptions properly in drafting standards, then the frequency of presumptions in a single standard will be fairly low. In our view as noted in our answer to question 2, the proposed threshold “rare” is not appropriate and should be replaced by “unusual”. If the IAASB applies this threshold appropriately in incorporating presumptions into standards, this would to lead a greater incidence of presumptions than if the threshold “rare” had been applied. This is in itself not a bad thing because, as described in our answer to question 2, by using the threshold “unusual” the IAASB would be giving direction to professional accountants in many of those cases that had previously been described using the present tense, but also allow greater application of professional judgement by professional accountants to depart from the presumption if alternatives adequately achieve the objectives generating the presumption.
IOSCO	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

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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.

IRE      This is the area that the IRE is most concerned about. In principle, we do not object to the inclusion of ‘requirements’ (‘shall’) instead of ‘presumptive requirements’ (‘should’), as long as the principles-based approach within the ISAs is maintained.

Therefore, we would like to stress the importance of minimizing the use of ‘shall’ (or, alternatively, ‘must’) to the utmost important requirements (reflecting the ‘fundamental principles’ (cf. our answer to questions (2) and (10)), and to keep the number of new requirements in line with the actual number of bold paragraphs as part of the existing ISAs, especially those originating from the new audit risk model.

The actual list of bold paragraphs will be sufficient to enhance the quality of the audit considerably, compared to the ISAs of the previous audit risk model of the 1990s (former ISAs 310, 400 and 401).

JICPA      The two categories of professional requirements would result in increased mandatory audit procedures without professional judgments. We have a concern that such increase would lead the auditor to perform audit procedures like a check lists without a reasonable understanding of the objective and/or purpose of the audit procedures. Consequently, we are afraid that the auditor might not appropriately perform audit in response to each of event or transactions based on professional judgment.

KPMG      As mentioned above, we are concerned that a significant increase in the number of bold “mandatory” requirements may result in audits that are more procedures oriented and more concerned with meeting documentation requirements, as opposed to carrying out a quality audit. It is for this reason that we suggest that the ‘requirements’ category be limited to fundamental principles underlying an ISA audit.

NIVRA      We would have concerns if the proposals resulted in a significant increase in the bold-type requirements, as it would not be consistent with the principles-based approach. The aim should be for concise standards that clearly identify the professional requirements relevant and applicable to every audit with which auditors are expected to comply as we have stated in paragraph 4 above.

PAAB      We do not foresee any major increase in bold-type requirements as these were determined at the time that the Standards were issued. The proposal is to label these

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requirements but the requirements, whether bold or grey lettered, should remain the same. Refer also to our comments under 1 above.

PwC      ... we are very concerned that implementation of the proposals will result in many more detailed, procedural-oriented standards and excessive documentation requirements. Our field-testing of the proposals on additional ISAs clearly demonstrated the number of requirements are likely to double or triple under the proposals, obscuring the key objectives governing the auditor’s work effort and focussing on how to rather than why and for what purpose. In our view, the proposals will negatively affect audit quality because they will inevitably drive behaviour towards a preoccupation with compliance with the standards rather than focus auditor attention on the application of judgement to achieve the objective of the audit. The longer term effects could also include a decline in the quality of people attracted to the profession, which would further impact audit quality.

RR      The increase in the number of bold type requirements will have two sources: the making explicit requirements that are currently implicit; and an increase in the number of requirements themselves. The making of implicit requirements explicit should not be cause for concern, as it will lead to increased clarity. The IAASB long ago conceded the battle that its standards should be principles-based only and a move away from implicit requirements towards explicit requirements is an inevitable consequence.

As discussed earlier, the new and lower authority level attached to “should” statements will lead to an increase in the number of bold type requirements. However, if past experience is any guide, those calling for an increase in specificity will not be just regulators but will include a large number of practitioners. Although a number of people have expressed concern about the specificity and level at which professional requirements are set, very few have expressed their concerns in a way that is consistent with all their proposed amendments, and even fewer have indicated why they are concerned other than vague remarks about the perils of a cookbook approach.

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

AASB-CICA      We fully support retaining the bold type convention in order to distinguish professional requirements from explanatory material.

ACAG      We agree with retaining the bold type convention, as it will assist with clearly differentiating ‘requirements’ from ‘presumptive requirements’.

ACCA      We agree with the retention of the bold type convention; this aids the readability and usability of pronouncements.

AICPA      The language used in the standard, not the text style, should set the requirements of the standard. If we use language correctly, the “level” of each requirement should be clear just from reading the sentences. We believe that the use of bold lettering implies that there is a hierarchy of requirements in the standards that is not

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defined by the use of language. Our preference is for the International Standards to use grey letter for all paragraphs.

We believe that the continued use of bold type lettering increases the emphasis of these paragraphs and overshadows the grey letter paragraphs. While we appreciate that paragraph one of the Proposed Policy Statement requires the professional accountant to consider the entire text of an International Standard, we believe that emphasizing certain text by use of bold type lettering creates an implicit hierarchy within a standard.

Paragraphs 5 and 6 of the proposed policy statement state that:

5.        “A professional accountant complies with the professional requirements of International Standards that are relevant to the engagement, that is, when material matters exist that make the professional requirements of the standard applicable. A professional accountant should represent compliance with International Standards only upon complying with all relevant professional requirements of the International Standards.

6.        Bold type lettering is used in paragraphs within an International Standards to identify professional requirements for purposes to aiding overall readability.”

If the auditor is required to comply with all the relevant professional requirements and those professional requirements are identified in bold type lettering, this creates a two-tier structure within the International Standards. Furthermore, because the professional accountant can meet the requirements of the standards by following the bold type paragraphs only, we are concerned that some professional accountants will not read the entire standard or apply it uniformly. The only way to ensure that that the professional accountant reads and applies all the requirements in the standard is to eliminate this two-tier structure.

APB        If the existing structure if ISAs is to be retained APB supports the continued use of the bold type convention. However APB supports restructuring of the ISAs with the requirements being separated from the application guidance. If this approach were to be adopted the bold type convention would become redundant.

AUASB     Adherence to the bold type convention retains consistency with the format adopted in accounting standards in Australia (including IFRS), and is a clear basis for designating mandatory and presumptively mandatory requirements of a standard. Also, practitioners are familiar with the bold-type lettering convention. Nonetheless, it would be helpful to articulate the basis and criteria for determining how and which basic principles and essential procedures will be elevated to ‘shall-type’ mandatory requirements. Furthermore, to enable practitioners to easily distinguish between the categories of requirements, we suggest the presumptive (‘should’) requirements ought to be in bold lettering and italicised.

Basel      Yes, as it aids readability of the standards by providing a structure where the key requirements of the standard are in bold and the more descriptive material is in grey. Furthermore, the same drafting convention applies to international financial reporting standards.

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CEBS	Yes, as it aids readability of the standards by providing a structure where the key requirements of the standard are in bold and the more descriptive material is in grey.
CIPFA	We agree that it should be retained but, as we have argued above, it should be used far more sparingly than envisaged in the proposed policy statement. Another advantage of this would be that it would have greater impact.
CNCC-CSOEC	As mentioned above, the French Institutes support the “codification of the language” side of the project only if it is carried out in conjunction with at least some aspects of the “restructuring” side of it, and in particular, the separation of the professional requirements from the application guidance in two distinct documents.  If the codification of the language aspect of the project were to be carried out without the “restructuring” side, the French Institutes would strongly support retaining the bold type convention.  If, on the other hand, as advocated by the French Institutes, the professional requirements and the application guidance were to be separated, there would be no need to retain the bold type convention.
CPA Aus	Yes, bold type lettering should be retained. Practitioners are familiar with bold type lettering as the current auditing and accounting standards both use this structure. As CPA Australia believe that explanatory material (ie ‘responsibility to consider’) should be retained in the standard, it will be useful for practitioners to still be able to identify bold type lettering.
DnR	We support the decision to retain bold text until restructuring of the ISAs with a separation of the professional requirements from explanatory material, will make use of the current bold type lettering convention unnecessary. However, we urge that IAASB consider the possibility of eliminating parts of the text written in the present tense, from the presumptive requirements to be written in bold text. We believe that auditors should use their professional judgement in selecting the detailed audit procedures to be performed, and that the standards mainly should state the obligations to reach the audit objectives and not describe which detailed procedures the auditor should follow to reach audit objectives.
DT	In the existing structure of the standards the bold type convention continues to make sense for the purpose of improving readability. As standards are revised using the new structure the bold type convention would no longer be necessary to improve readability.
EC	We will definitely not be able to maintain the bold lettering convention in the Official Journal of the European Union. Bold type should be seen as a non binding tool helping the reader to spot more easily the frame and important statements of a standard. Bold type text should not have any language or authoritative meaning.

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<b>Respondent</b>	<b>Respondent Comment</b>
EY	We strongly support the retention of bold type lettering to indicate the professional requirements. Removing the bold type within longer, more complex standards would lead to practical difficulties for professional accountants attempting to 'find their way' around the content of the standard and would reduce clarity – the bold type facilitates finding the relevant sections of the standard.
FAR	We support the retention of the bold type convention. However, if IAASB would choose the Restructuring Option B presented in the Consultation Paper we believe that bold type text would have no obvious function.
FEE	As stated earlier, FEE believes the existing ISAs are effective and FEE therefore is comfortable with the use of bold type lettering; it is helpful to emphasise certain aspects of “principles-based” or “objectives-based” standards, in bold type lettering, with necessary application and explanatory material in grey type lettering, not least because it helps ensure that the basic requirements are considered before going into more detail, a point which is appreciated by small and medium-size practitioners. The use of bold type lettering is intrinsically linked to the restructuring option preferred as further detailed in paragraphs 16 to 29 of the Proposed Consultation Paper. In case Restructuring Option A (paragraph 19) is chosen whereby professional requirements and necessary explanatory material continue to be included in one document, bold type lettering would continue to serve its purpose. In case the restructuring option is retained whereby the professional requirements are separated from most of the application and explanatory material (Restructuring Option B – paragraph 20), there is no longer a need for the use of bold type lettering for clarity purposes. As FEE is in favour of a restructuring option similar to Restructuring Option A, FEE is also in favour of the retention of the bold type convention.
GT	We agree with the IAASB’s decision to retain the bold type convention. Such convention further enhances the clarity and consistent application of International Standards by distinguishing the requirements and presumptive requirements from the explanatory material.
H3C	Retention of the bold type convention would be against the opinion of the French authorities.
ICAEW	We agree with the decision to retain bold type because professional requirements need to be clearly identifiable (no professional requirement would be included in grey type). Nevertheless, the distinction between the two types of professional requirement is important and the intermingling of the very similar words ‘shall’ and ‘should’ may easily give rise to simple errors. This is another reason for using the word ‘must’, instead of ‘shall’. But if the word ‘shall’ is to be used in close proximity with the word ‘should’, we suggest that both words be italicised.
ICAI	The retention of bold paragraphs as a mechanism to assist users of the standards identify requirements and presumptively requirements is of significant benefit to

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	users. This is likely to assist in improving the quality of audits as the standards will be clear and easily used.
ICANZ	If the IAASB adopts the structure as set out in Exhibit 2 we do not believe that it is necessary to retain the bold-type convention. If the IAASB elects to adopt a structure as set out in Exhibit 1 then a bold-type convention should be retained.
ICAP	We agree with this decision as it forms a guideline for accountants and provides them a point of view of the major aspects of the standard. However the anticipated increase in bold type lettering in the standards should be kept at a reasonable level.
ICPAK	Yes.
IDW	<p>Yes, we agree with the decision to retain the bold type convention because we believe that it focuses the IAASB on the basic objectives, requirements and presumptions before addressing additional issues and thereby improves the structure of the standards. Furthermore, the bold letters are a helpful reading aid for users, of the standards.</p> <p>However, the criteria for the use of the convention may need to be revised based upon the criteria for the inclusion and use of objectives, requirements and presumptions in engagement standards as adopted by the IAASB in its Policy Statement. In our view, a distinction may need to be made between basic objectives, requirements and presumptions and derivative ones. Derivative objectives, requirements and presumptions are those that logically follow from other ones. While there may be some judgement involved, we do not believe it to be necessary to apply the bold letter convention for every derivative objective, requirement and presumption, but it would be helpful to apply the bold type convention for basic objectives, requirements and presumptions.</p>
IOSCO	<p>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.</p> <p>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.</p>
IRE	In our comments on the consultation paper, the IRE supports option A (cf. infra: question (1) of the consultation paper), which implies that the bold type convention

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is no longer needed for clarity purposes.

If, however, the IAASB chooses to maintain the ISAs in their present structure, the bold type convention is essential to distinguish requirements from application material.

JICPA      We are not in a position to make any comment on the bold type convention because the restructuring of ISAs is not concluded.

KPMG      Ultimately, the need for the bold type convention will depend on whether/how the ISAs are restructured. Under the current structure of the ISAs, we agree with retaining the bold type convention as a means of highlighting or emphasizing professional requirements. However, there will be no need for the bold text convention if the International Standards are eventually restructured as is being proposed in the Consultation Paper.

NIVRA      Notwithstanding the question 6 regarding restructuring below, we strongly support the continued use of bold and grey lettering to distinguish requirements from explanatory guidance, what is consistent with a principles-based approach.

PAAB      Yes, we support the view that the current convention of bold and grey lettering is useful and should be retained

PwC      As we stated in our response to the IAASB Exposure Draft – Proposed IAASB Terms of Reference and Preface to IAASB Pronouncements, we strongly support the continued use of bold and grey lettering to distinguish requirements from explanatory guidance and would oppose any change to that practice. Identifying the professional requirements through the use of bold-lettering is consistent with an objectives-based approach to standards. The practice also facilitates standards development by providing a logical structure and discipline, and the style improves the readability of the final pronouncements.

RR      I do not agree with the decision to retain the bold type convention: I do not believe that one should use typography to do the work of grammar.

Part of the problem with establishing the principle of equal authority has been a convention that gives greater emphasis to some paragraphs than to others. I understand the argument that the use of bold type makes mandatory requirements easier to find, but I do not agree with it. Auditors are people with no little education or intelligence, and are expected to use professional judgement in all aspects of their work. They will also have had to pass examinations on the contents of auditing standards and the way in which audits are conducted. To say that such people cannot easily identify the paragraphs that set out professional requirements is an insult to auditors, and, if true, a sorry condemnation of the process by which auditors are trained.

I also do not fully agree with the argument that the use of bold type makes translation easier. The proposed policy statement on translation did not refer specifically to the bold type paragraphs, but rather to “key words and phrases” that the principal translator should be responsible for translating. If the bold type paragraphs were particularly important for translation purposes then the policy statement would have mentioned them.

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There are also some technical objections to the use of bold type, which I set out in Appendix 2. [Typographic conventions, such as italic and bold type, have a meaning in English that they do not necessarily share in other languages. (For example, when using Fraktur type, German printers use letter-spacing instead of italic.) Conventions in languages that do not use the Latin alphabet may be totally different. Thus, when the ISAs are translated into another language the use of bold type may not mean the same thing as it does in English. The IAASB's standards are increasingly being used in electronic format by conversion to HTML or XHTML. The proper tag for marking out emphasized text is not the <b> tag, but rather the <em> tag. Furthermore, the rendition of such tags depends upon the settings that the reader has chosen in his software rather than anything the author codes in the text or style-sheets. It is quite open to the reader to have his software set up such that text that normally appears in bold type is set to appear as flashing type on a screen.]

9. Do respondents agree that the IAASB should apply the proposals on a prospective basis? Please state the reasons in support for your response.

AASB-CICA      We believe that prospective application of the proposals is the only practical alternative for implementing such significant changes in use of language. The time and resources required to revise all existing standards before implementing the new structure would unnecessarily delay issuing the material in a format more useful to practitioners.

ACAG              From the alternatives provided, application of the proposals on a prospective basis is the most pragmatic approach. This approach will free up the IAASB's resources to continue its current program of projects.

AICPA             We do not support the IAASB's proposal to apply the changes in drafting protocols on a prospective basis. While we appreciate that the IAASB has limited resources, it is imperative that the recently issued risk assessment and related standards be redrafted under the new conventions and exposed for comment. These standards are integral to the audit process, and to the development of new standards and the revision of existing standards.

We would support a proposal to redraft and expose the following standards on a priority basis:

- ISA 200 Objective and General Principles Governing an Audit of Financial Statements;
- ISA 220 Quality Control for Audit Work;
- ISA 240 The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements;
- ISA 300 Planning;
- ISA 315 Understanding the Entity and its Environment and Assessing the Risks of Material Misstatements;
- ISA 330 The Auditor's Procedures in Response to Assessed Risks; and

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- ISA 500 Audit Evidence;

We believe that if these standards are not redrafted under the new convention, there will be a significant amount of confusion in determining whether audit procedures are a requirement or a presumptive requirement.

We also believe that it will be difficult, if not impossible, for auditors and the IAASB (as well as national standard setters) to link future standards to the core audit risk standards, unless they are first redrafted under the new convention.

The risk assessment project was initially undertaken as a joint project between the IAASB and the AICPA. The Auditing Standards Board of the AICPA expects to vote to reissue for exposure its own version of those risk assessment standards at its April 2005 meeting. We believe that the language used in the AICPA risk assessment standards is substantially consistent with the proposed protocols established by this exposure draft. To achieve a revision of the risk assessment and related standards, in the short-term, under the new drafting conventions, the AICPA would be willing to continue the cooperative effort that led to the risk assessment standards and assist with providing resources for undertaking the project we are recommending.

APB            No. 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        From the AUASB's perspective, it would be preferable if all ISAs were reviewed and issued at one time, rather than taking a prospective approach. Such an approach would also assist in retaining parity and greater conformity between Australian auditing standards and ISAs, as well as maintaining a consistent platform, with regard to an auditor's degree of responsibility to undertake mandatory versus discretionary actions and procedures for audits of financial reports. Also, a retrospective approach under which all ISAs are reviewed and issued at one time would assist all those countries whose regulatory framework renders (or are expected to) some form of legal status to auditing standards.

We acknowledge that a review and re-issue of all ISAs at one time might be impracticable, particularly with regard to completion of existing projects. To facilitate the review and redrafting of ISAs in accordance with the clarity proposals, and in light of the AUASB's review of its auditing standards, there could be scope for the AUASB to lead or assist with redrafting of certain ISAs (AUS). However, this is dependent on timely finalisation of the clarity proposals by the IAASB, given the AUASB's statutory responsibilities regarding review and issue of Australia's auditing standards as delegated legislation. In the event the clarity proposals cannot be finalised and determined within the time horizon available to the AUASB, the AUASB will need to determine its own approach, which could result in altering the extent to which AUSs can be harmonised with ISAs.

Respondent	Respondent Comment
Basel	<p>As regulators we are keen to have clear and consistent audit standards to aid the quality of the audit. We would therefore favour exposing a complete package of revised standards at a single point in time. However, we understand that redrafting all standards would not be practicable as it would consume a significant amount of time and effort and would require existing projects to be put on hold.</p> <p>The prospective approach will undeniably increase confusion during a transitional period when standards would exist in both the existing and new style of drafting. We strongly encourage the Board to launch a new and identifiable project that would ensure a redrafting of all existing standards under the proposed drafting convention, within a reasonable period of time and starting with key standards like “Audit Risk” and “Fraud”.</p>
CEBS	<p>As regulators we are keen to have clear and consistent audit standards to aid the quality of the audit. We believe that the clarity project could achieve this aim. We do not support the proposal to apply the clarity project on a prospective basis, i.e. to new ISAs as they are issued. If there are ISAs in the public domain where the status of certain obligations on the auditors is unclear (e.g. the 'shoulds' in different ISAs may not be of equivalent status) there may be confusion for auditors and regulators. We would therefore favour the issuing for exposure at a single point in time, of a complete package of revised ISAs.</p> <p>Alternatively, if resources are that constrained, it may be appropriate if a suite of the main ISAs were all changed for clarity at the same time, commencing initially with key audit standards such as those covering audit risk and fraud, so that the more minor ISAs are left to later.</p>
CIPFA	<p>Ideally, no. We would prefer a ‘big bang’ approach whereby all existing ISAs were revised with effect from the same date. This would avoid the inevitable confusion caused by a long transition period. We fully appreciate the resource issues involved, but, as we stated at the beginning of our response, we feel strongly that the implementation should be postponed pending a much fuller consideration and debate over the important issues at stake. If this were done, the impact on other current IAASB projects would be significantly reduced.</p>
CNCC-CSOEC	<p>Although a big-bang approach would have been preferable, the French Institutes agree with the application of the proposals on a prospective basis under the previously mentioned condition that the “codification of the language” and the “restructuring” initiatives are applied simultaneously to the related standards.</p>
CPA Aus	<p>No, CPA Australia would prefer that the IAASB review all its ISAs at a single point in time (‘big bang’) 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 IAASB should mirror the approach taken by the IASB, by setting a stable platform, rather than a piecemeal approach.</p>
DnR	<p>In principle we believe that also the existing standards should be revised so that all the ISAs are presented in a consistent way. However, we understand a decision to apply the proposed categories on a prospective basis due to the resource restraints of the IAASB and the need to carry out other pressing tasks.</p> <p>A possible way to solve the problem of lack of resources may be to outsource parts of the revision work to national institutes which might undertake a large amount of the necessary technical work provided that sufficiently clear directions are produced for the selection of “shall”, “should” and further guidance. This solution</p>

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DT	<p>could be used for the more relevant standards.</p> <p>We agree that the proposals should apply on a prospective basis as described in our recommendations.</p>
EC	<p>Given the scale of the amendments to the standards, applying the proposals on a prospective basis is not enough to provide the users with sufficient legal certainty. Having two inconsistent language, and possibly structure conventions at the same time will not make standards easy to use and understand. In addition, transposing auditing standards into the Community legislation will entail time consuming requirements for EU bodies: possibly a technical review, an endorsement process, and the translation and publishing of the standards in each of the official languages of the Community, in the Official Journal of the European Union. Any change made to the standards after initial adoption will result in costly and time consuming procedures, compared to the added value.</p> <p>We stand at a critical period in time. At a certain point in time, EU users of ISAs will need a stable platform to operate in a secure environment. Meanwhile, the IAASB is seeking to clarify the standards, with such effect that the wording of the standards is significantly modified. In such context, we have no option but to support revision of all standards retrospectively in a short period of time, even at the cost of delaying current Board's work program for a few months.</p> <p>This is an ambitious exercise. When going through the policy statement and consultation paper, it appears clearly to us that it would be more effective to revise the standards, not only in respect of their language, but also in respect of their structure. This is why we support designing a whole set of clear drafting guidelines encompassing such issues as language (use of "shall" or "must", "should"), principle based approach, provisions proportionate to the objective pursued, and considering SME issues. We urge the Board to state such drafting guidelines in Statements with sufficient authority.</p> <p>Having said that, the next issue is the timing. The Commission and assisting committees may start reviewing certain aspects related to ISAs starting 2005 or 2006 with the view of a possible subsequent adoption of ISAs. We invite the Board to publish an agenda for the review of the language and structure of the standards with "Clarity", so that the complete revision of the standards is performed by mid 2007.</p>
EY	<p>We agree that the IAASB should apply the proposals on a prospective basis but would recommend that IAASB also embark on a project to reword the entire body of ISAs over a three year period, giving priority to the recently issued standards on risk assessments and fraud.</p> <p>The illustrative examples provided with the Consultation Paper were very valuable in helping to formulate our views on this question. In looking at the way in which the bold text was introduced to the standard used for illustrative purposes, it is clear that adding "shoulds" and "shalls" is not simply a drafting exercise, but one which requires challenge and discussion, and public exposure.</p>
FAR	<p>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.</p>
FEE	<p>In our opinion the provisions of the Policy Statement included in the Proposed Policy Paper should apply from the date of issue of the revised standards, subject to an effective date being agreed. We refer to our main comment on "Basis of application" for further details; as indicated we favour the "first approach".</p>

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GT	... we prefer the second approach to implementation [that is, the modified prospective approach.]
H3C	We are in favour of a prospective approach in the application of the proposals, but on the condition that the usage of “shall” and all other conditions abovementioned are adhered to, without the introduction of “presumptive requirements” and the usage of “should”.
ICAEW	We strongly believe that the proposed implementation date of 15 June 2005 for the proposed Policy Statement is too early. Practitioners and the businesses they serve will be under significant pressures during 2005 as they seek to implement IFRS, and in the UK, existing ISAs, for the first time. We believe that to add to these pressures at this time would: <ul style="list-style-type: none"> <li data-bbox="302 618 751 639">• present a real threat to audit quality;</li> <li data-bbox="302 667 1304 688">• in some cases result in the botched implementation of ISAs - a highly undesirable outcome;</li> <li data-bbox="302 716 1745 737">• potentially further prejudice the delicate negotiations currently taking place at European level on the implementation of ISAs in Europe.</li> </ul> <p data-bbox="302 764 1898 927">We are making strong representations at European level to the effect that the endorsement of ISAs should not involve the piecemeal endorsement of individual ISAs, in order to avoid the problems already experienced with the implementation of IFRS. Those who support piecemeal endorsement may well seek to argue that these proposals are controversial, and that the very early implementation date further reinforces the need for piecemeal endorsement. Furthermore, those who believe that ISAs are not ready for implementation in Europe at all will argue that the whole clarity project is being rushed through because existing standards are somehow inadequate.</p> <p data-bbox="302 954 1898 1015">As noted above, we strongly believe that the proposed Policy Statement and the restructuring proposed in the Consultation paper should not be decoupled. We strongly believe that the most appropriate and orderly sequence of events going forward is as follows:</p> <ul style="list-style-type: none"> <li data-bbox="302 1042 1898 1102">• existing unrevised ISAs should be fully updated in line with the recently issued risk and fraud ISAs, to provide a stable platform on which to perform a restructuring exercise; at the same time, the fundamental principles should be further developed;</li> <li data-bbox="302 1130 1465 1151">• the restructuring exercise should then be performed and the proposed changes in terminology implemented.</li> </ul> <p data-bbox="302 1179 1898 1239">It is very clear in the UK that practitioners much preferred this ‘big bang’ type approach to the implementation of ISAs in the UK to a piecemeal approach which would have exposed them to a constant stream of detailed changes over several years.</p>
ICAI	The IAASB should apply the proposal prospectively as retrospective application would be problematic as the original standards were not drafted in a way which would support retrospective application of the proposal. If the proposal was to be applied retrospectively a review of the existing body of standards should be

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undertaken to identify areas where problems may arise and to implement the proposal after scoping these areas out of the application of the proposal.

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 on 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 fully agree with the problems stated in the Explanatory Memorandum in respect of adoption of these proposals. Though prospective adoption would be much more acceptable and easy to implement and would give accountants sufficient time to prepare and brace for a change of such magnitude. However, IAASB should consider adopting the second approach of redrafting on a priority basis the recently issued ISAs relating to audit risk and fraud as they follow the lengthy descriptive style, it is felt that redrafting of these standards would add value to the users in implementing these ISAs.

The above response is given without taking into consideration the proposals regarding redrafting of ISAs as suggested in paragraphs 19-22 of the Consultation paper ICAP views on which are expressed in response to Question 6 of the consultation paper.

ICAS      We are strong supporters of convergence with international standards on auditing and international accounting standards and have consistently expressed support for a 'big bang' approach to convergence as being the most effective and least disruptive course of action. We do not underestimate the resources that would need to be employed by the IAASB to identify 'fundamental principles' and to update all extant international standards on auditing in line with a revised Policy Statement, underpinned by those 'fundamental principles'. However, we urge the IAASB to consider seriously the merits of our arguments and to respond swiftly once a course of action has been determined.

ICPAK      Yes. This will ensure consistency in the application of the ISA's. This will also avoid confusion that would arise if earlier application had been proposed since there would be two parallel sets of Standards applicable.

IDW      We do not support the IAASB's intention to apply the proposals on a prospective basis, even though we appreciate the practicalities that have led the IAASB to favour a prospective approach. As pointed out in our previous comments, the IAASB's standards are or will become de facto or de jure statutory instruments in a number of jurisdictions, and in particular, in the EU. Practitioners, oversight and enforcement authorities, and regulators should not be placed into a position where

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doubt remains on their part as to the degree of obligation imposed upon professional accountants by the standards. The current use of present tense in the standards is interpreted by some to be equivalent to a requirement, by some to be a presumption, and by others to be a consideration – depending upon the jurisdiction or the nature of the user of the standards. Furthermore, it is unusual for a set of standards or a legal instrument to contain two different systems of describing obligations concurrently. This would also cause confusion among users of the standards.

Consequently, we consider the application of the proposals to clarify the level of obligation imposed on professional accountants to be of the highest priority and therefore strongly recommend that the IAASB apply these proposals on a retrospective basis. As we noted previously in our comments, the issues of wording specifying degrees of obligation cannot be separated from issues of structure. Consequently, any proposals chosen from the consultation document must be implemented on a retrospective basis and concurrently with the proposals in the Policy Statement.

We are aware of the practical problems associated with a retrospective approach – both for the proposals in the Policy Statement and any restructuring of the standards, and in particular, if these were to be performed concurrently. In our view, such an approach is predicated upon a moratorium of new standards setting by the IAASB to free full board time and staff resources for retrospective application, and upon obtaining additional technical resources from national standards setting organizations. We would like to remind the IAASB that the IDW stands by its previous offer to dedicate the equivalent of an experienced member of the IDW technical staff to a project involving the a retrospective approach to both wording and structure concurrently. We suspect that retrospective application of both the Policy Statement and any restructuring would require a standards setting moratorium that may extend from twelve to eighteen months.

We would like to point out that retrospective application in such a manner does not mean that some task forces cannot continue to work on their other respective projects – albeit at a reduced pace until the retrospective application is complete.

IOSCO      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.

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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.

IRE                      ... we do not support the application of the proposals only on a prospective basis.

ACCA                    In our view, different forms of standards would make compliance and monitoring unnecessarily difficult. We would prefer to have changes made all at once.

JICPA                   We support an approach that consists of redrafting and issuing for exposure prospectively, but on a priority basis, before the final approval for the existing ISAs, including the recently issued exposures because the length of the recently issued ISAs causes a difficulty in understanding the statement. However, the prospective application on a priority basis would create an excessive amount of work for the IAASB working group. Consequently, we believe that the resource constraint of the IAASB will need to be addressed.

KPMG                   As indicated above, we disagree with the proposal to apply the provisions of the Policy Statement on a prospective basis to Exposure Drafts approved for issue after final approval of the Policy Statement. If the IAASB believes there is a need to clarify the professional requirements of its Standards, it is very important that this clarity be provided to existing as well as future Standards and Exposure Drafts. We therefore recommend that IAASB establish a work program that is aimed at identifying the most effective order in which the structure and language used in existing ISAs will be reviewed, revised and exposed.

NIVRA                   We support IAASB's proposal to apply the changes on a prospective basis. We believe that redrafting and perhaps restructuring the complete set of ISAs and issuing them for exposure will delay the process of developing a robust set of auditing standards.

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 are different.

We would also not support the redrafting of selected Standards only as this might create the impression that the balance of Standards not subject to redrafting are less important.

Finally, as mentioned in our overall comments, it is important for those countries which have already adopted the International Standards to have a stable platform from which to apply the Standards. This would require consistency in the drafting policies and conventions so that the Standards can be applied consistently.

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	<p>We therefore recommend that, should the project continue, consideration be given to issuing the Standards drafted on the new convention in one batch. We recognise the time and capacity constraints to implement this proposal and refer to our overall comments under 7 above.</p>
PwC	<p>We strongly encourage IAASB not to proceed with implementing the current proposals at all. Instead, we encourage IAASB to undertake a much more comprehensive revision of the ISAs and to do so prospectively, as explained more fully in our covering letter.</p>
RR	<p>I am not sure what the IAASB means by “on a prospective basis”. I take that to mean that the proposals will apply only to standards and exposure drafts issued after the policy statement comes into force. However, the explanatory memorandum states that the change in the status of “should” paragraphs will take effect for existing standards immediately the policy statement is issued. This does not seem to me to be a prospective basis.</p> <p>I do not believe that the proposals can be applied to the standards currently in issue and believe that they can be applied only to those standards that have been written according to the rules in the proposals. The existing standards were written on the basis that departures from their requirements would be allowed only where necessary to achieve more effectively the objective of an audit. The new proposals allowed the auditor to depart from presumptive requirements in any circumstances provided the auditor documents why. It is therefore inappropriate for an auditor to be able to depart from an existing bold type requirement on the basis of the new, lower, threshold.</p> <p>However, a wholly prospective approach brings its own problems. Recently, when the IAASB issues a new standard it makes conforming changes to some existing standards. It cannot continue to do so if it adopts a wholly prospective approach. The conforming changes to the existing standards will be written in the new language whilst the bulk of the standard will continue to be written in the old language. It is difficult to argue that the same word should have a different meaning in different parts of a document. The IAASB could, of course, draft the conforming change in the old language, but that would present its own problems because it would be difficult to use the old language of the existing standard to achieve the same effect as the new language in the new standard that prompted the conforming change.</p> <p>That is not the only problem of a wholly prospective approach. ISAs typically repeat or rephrase the requirements of other ISAs. Many ISAs repeat the requirements of ISA 315, “Understanding the Entity and Its Environment and Assessing the Risks of Material Statement” by way of introducing their own requirements. ISA 315 is written in the old language, and yet the new standards will be written in the new language. It will be difficult to set out the requirements accurately using new language, which gives greater scope for departure than ISA 315 itself allows or contemplated.</p> <p>The final reason for not adopting a prospective approach is that to do so would undermine the whole reason for the changes. The changes are predicated on there being a lack of clarity in the existing ISAs or a lack of consistent understanding of ISAs by auditors around the world. If this is the case, then it is important that the major ISAs are clarified and applied consistently as quickly as possible. The IAASB cannot believe that an immediate change to its drafting practice is necessary</p>

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unless it believes that standards such as ISA 315 are unclear or are written in a way that precludes consistent application. If the IAASB is willing to adopt a gradual approach to rewriting its standards it cannot believe that they are currently unclear or incapable of consistent application.

I believe that the proposals should not be implemented until the IAASB has had a chance to rewrite the core standards in the new language of the proposals. I set out in Appendix 3 the standards I believe to be the core standards for this purpose.[ ISA 200, ISA 300, ISA 310, ISA 315, ISA 330, ISA 500 Audit Evidence] I realize that the IAASB has already considered and rejected this approach, but I urge it to reconsider the matter. It cannot be in anybody's interests that the standards that set out the fundamentals of an audit should be written in a way that the IAASB itself does not believe best expresses its intent. I realize that rewriting the core standards will consume many resources, and will bring its own problems. However, I believe that the end result of a set of consistent fundamental standards is a prize well worth seeking.

I believe that the IAASB will have to undertake this rewrite anyway. The PCAOB in the United States will soon be seeking to expose its own version of the revised audit risk model and will, in due course, issue revised standards. It is unlikely to adopt unaltered the IAASB's standards. The IAASB will then come under pressure to change its standards to bring them into line with those of the PCAOB. That will give the IAASB chance to rewrite many of its core standards.

DETAILED DRAFTING POINTS

EY

Detailed drafting points

- As a drafting convention, where an ISA is cross-referred to, we recommend that, at least the first time it is mentioned, its full title should be provided either in the text or (preferably) as a footnote.
- We agree with the proposed drafting convention set out in footnote 3 on page 44.
- Policy Statement, paragraph 12: It would be clearer if paragraph 12 was more explicit as to whether it referred to paragraphs 10 and 11 or only paragraph 11 when it states 'as explained above'.
- Consultation Paper, paragraph 2: The list given here, being the IAASB objectives for standards, should be an exhaustive list – we recommend deleting 'among other things'.
- Illustrative example 1, paragraph 8: while we are aware that we should not be commenting on the specific drafting of the illustrative example, as it does not represent a proposed re-drafting, we nevertheless believe it is necessary to comment on the grey text in paragraph 8, as an example of prescription to be guarded against. The implication of the drafting is that we would need at least one example of each procedure from the set in 8(a)-8(c) – we would be concerned if

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appropriateness of procedure ceased to be a criterion in favour of making sure we have an example of each type of procedure.

Paragraph 1 - This Policy Statement, in conjunction with the Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance, and Related Services (Preface), sets forth the meaning of certain terms and conventions used in International Standards issued by the IAASB in describing the professional requirements imposed on professional accountants.

IDW      Title      While the exposure draft relates to “clarification”, the final Policy Statement simply defines. Consequently, the word “Clarifying” could be dropped from the title of the Policy Statement. In line with our response to question 2 the word “requirements” in the title should be changed to “obligations”. We therefore suggest the following title: “Professional Obligations in IAASB Pronouncements”.

...we suggest the term “professional requirements” be changed to “professional obligations” and the term “International Standards” to “IAASB Pronouncements”; these changes would require conforming changes in subsequent paragraphs.

Paragraph 2. International Standards contain professional requirements together with related guidance in the form of explanatory and other material, including appendices. The professional requirements contained in International Standards are to be understood and applied in the context of the explanatory and other material that provides guidance for their application. 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).

IDW      ...this paragraph should read:

“IAASB Standards set forth the obligations imposed upon professional accountants by describing the objectives that professional accountants must achieve, and the requirements and presumptions that professional accountants apply to achieve those objectives, together with application material, including appendices. The application material represents explanatory material (definitions, descriptions and other explanations) required to provide a context so that the objectives, requirements and presumptions in the standard can be understood and applied. Therefore, professional accountants must consider the entire text of an IAASB Standard, including the application material, in carrying out their work on an engagement to understand and achieve the objectives and to understand and apply the requirements and presumptions. ”

Paragraph 3. Not every paragraph of an International Standard carries a professional requirement that the professional accountant is expected to fulfill. Rather, the professional requirements are communicated by the language and the meaning of the words used in the International Standard and as described in this Policy Statement.

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IDW                    ...this paragraph should read:

"Not every sentence in an IAASB Pronouncement represents a requirement that a professional accountant is expected to fulfil. Rather, the meaning of the words used in the IAASB Standard and as described in this Policy Statement convey the nature of the professional obligation embodied in a sentence."

Paragraph 4. International Standards use two categories of professional requirements, identified by specific terms, to describe the degree of responsibility that International Standards impose on professional accountants, as follows:

Requirements – The professional accountant is required to comply with a requirement in all cases in which the circumstances exist to which the requirement applies. International Standards use the word "shall" to indicate a requirement.

Presumptive requirements – The professional accountant is also required to comply with a presumptive requirement in all cases in which the circumstances exist to which the presumptive requirement applies; but, in rare circumstances, the professional accountant may depart from a presumptive requirement provided that the professional accountant documents why the professional accountant decided to do so and how the alternative procedure(s) performed in the circumstances were sufficient to achieve the objectives of the presumptive requirement. International Standards use the word "should" to indicate a presumptive requirement.

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.

The professional requirements of an International Standard are to be understood and applied in the context of the explanatory and other material that provides guidance for their application.

IDW                    ...this paragraph should read:

"IAASB Standards use the following categories of professional obligation to describe the degree of obligation that International Standards impose upon professional accountants:

Objectives – The professional accountant is required to achieve an objective described in an international standard in all cases in which the circumstances exist to which the objective applies. International standards explicitly state that the sentence in question represents an objective.

Requirements – The professional accountant is required to apply a requirement in all cases in which the circumstances exist to which the requirement applies to achieve a particular objective. International standards use the word "must" to indicate a requirement. The IAASB undertakes to ensure that the specific circumstances to which particular requirements apply are clearly defined and that no exceptions to the application of a requirement in those defined circumstances exist; i.e., when

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the circumstances exist to which the requirement applies, there are no cases where an alternative other than the requirement adequately achieves the objective generating that requirement. On this basis, the IAASB expects the frequency of use of requirements ordinarily to be very low within any one standard.

**Presumptions** – The professional accountant is required to apply a presumption in all cases in which the circumstances exist to which the presumption applies to achieve a particular objective unless, in unusual cases, the application of an alternative adequately achieves the objective generating that presumption and thereby overcomes that presumption. If a professional accountant chooses to depart from a presumption in these unusual cases, the professional accountant must document how the application of the alternative adequately achieves the objective generating that presumption and thereby overcomes that presumption. The IAASB undertakes to ensure that the specific circumstances to which particular presumptions apply are as clearly defined as possible and that a particular presumption applies in those defined circumstances except in unusual cases, i.e., when the circumstances exist to which a presumption applies, it is unusual that an alternative other than the presumption adequately achieves the objective generating that presumption.

**Application Material** – A professional accountant is required to consider the application material to be able to understand and achieve the objectives and to understand and apply the requirements and presumptions. The definitions, descriptions and other explanations in the application material neither contain objectives that a professional accountant must achieve nor requirements or presumptions that a professional accountant applies. Application material may be written using the present tense, but will not use the terms “must”, “shall”, or “should”.

If an IAASB Standard provides that a procedure or action is one that the professional accountant “must consider”, the consideration of the procedure or action is required, whereas carrying out the procedure or action is not.

International Practice Statements include the following category of professional obligation imposed upon professional accountants:

**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. Other considerations will not be written using the terms “must”, “shall”, or “should”.

Paragraph 5. A professional accountant complies with the professional requirements of International Standards that are relevant to the engagement, that is, when material matters exist that make the professional requirements of the standard applicable. A professional accountant should represent compliance with International Standards only upon complying with all relevant professional requirements of the International Standards.

IDW      ...this paragraph should read:

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“When applying IAASB Standards, professional accountants are required to fulfil specific professional obligations contained in the International Standards when material matters exist that make these obligations relevant to the engagement. A professional accountant may represent compliance with IAASB Standards only upon fulfilling all relevant professional obligations in the IAASB Standards.”