

January 14, 2005

Mr. James Sylph
Technical Director
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Exposure Draft: *Proposed Policy Statement, “Clarifying Professional Requirements in International Standards Issued by the IAASB”* and Consultation Paper: *Improving the Clarity and Structure of IAASB Standards and Related Considerations for Practice Statements*

Dear Mr. Sylph:

The American Institute of Certified Public Accountants (AICPA) is pleased to comment on the above referenced exposure draft, Proposed Policy Statement “*Clarifying Professional Requirements in International Standards Issued by the IAASB*” and the consultation paper, *Improving the Clarity and Structure of IAASB Standards and Related Considerations for Practice Statements*.

We would like to commend the International Auditing and Assurance Standards Board (IAASB) on the issuance of this exposure draft. We support the goal of improving the clarity of International Standards issued by the IAASB. However, as we discuss below, we believe that most of the proposals in the exposure draft do not go far enough to increase clarity, and will in most cases, lead to less clear guidance for practitioners.

We believe that the following conditions are necessary for determining the clarity of an International Standard:

- The most important condition for clarity is the clear and consistent use of the English language. If this condition is not met, professional accountants cannot be expected to interpret and apply the standards appropriately; and translations into other languages are more likely to misconstrue the spirit and intent of the standards.
- The authority in the standards to impose a requirement (or presumptive requirement) should be clearly defined by the language that imposes the requirement.
- The clarity of the standards should not be determined by their length.
- Auditing standards should be based on fundamental principles, however we believe that auditors around the world benefit from clear and concise guidance on how to apply those principles.

We believe that clarity cannot be achieved unless these foregoing conditions are met.

We offer the following comments and recommendations:

Exposure Draft: *Proposed Policy Statement, “Clarifying Professional Requirements in International Standards Issued by the IAASB”*

Implementation of the Proposals

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
- 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.

Proposed terms “shall” and “should”

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.

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 dictionary¹ 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.

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.

Bold Type Lettering

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 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

¹ 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).

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.

Anticipated Increase in the Number of Bold Type Requirements

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.

Length and Clarity of the International Standards

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

Consultation Paper: Improving the Clarity and Structure of IAASB Standards and Related Considerations for Practice Statements

We do not support either *Restructuring Option A*, to retain the present structure of the International Standards on Auditing (ISA) but move a large part of the explanatory material to a related International Auditing Practice Statement or *Restructuring Option B*, to retain both the professional requirements and explanatory material in one document, but separated into two

distinct sections. We believe that any proposal that removes the guidance from the ISA runs the risk of severely weakening the ISA.

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

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

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

The mission of the IAASB is to establish high quality auditing, assurance, quality control and related services standards and to improve the uniformity of practice by professional accountants throughout the world, thereby strengthening public confidence in the global auditing profession and serving the public interest. We believe that to achieve its mission, the first step is for the IAASB to adopt the definitions of shall (or must, as we recommend) and should as outlined in this exposure draft. Further, we believe that in order to implement this proposal, the IAASB must establish a set of principles to be followed in setting the standards that will define what is or is not a requirement. Finally, we believe that the structure of each standard should be considered on a case by case basis, but that each standard needs to include all the requirements that are necessary to achieve the objective and provide sufficient context for the auditor to understand the requirements.

Thank you for the opportunity to comment on this Exposure Draft. If you have any questions regarding the comments in this letter, please contact Susan Jones at +1-212-596-6197, or sjones@aicpa.org.

December 31, 2004
Mr. James Sylph
Page 6

Respectfully submitted,

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Chair, International Auditing Standards Subcommittee