

Comments Received and Proposed Disposition on the Preface Exposure Draft

General Statements of Support or Non-Support (Responses to Specific Comments Are Shown By Paragraph Below)

<i>Respondent</i>	<i>Comment</i>
KPMG	We strongly support the principles, espoused by the IAPC Review Task Force, that underlie the changes proposed in the Exposure Draft, namely, improvement to the operations of the IAASB, enhancement of the public interest oversight and greater clarity and transparency about the IAASB's operating procedures and the status of its pronouncements. We therefore support the Exposure Draft but do have some comments on how the proposals can be clarified and improved.
PwC	<p>Overall, we are supportive of the Exposure Draft (ED) and, in particular, we are pleased to see the proposed Terms of Reference and Preface put into effect many of the recommendations of the IAPC Review Task Force. The November 2001 Task Force Report was an important step towards positioning the International Auditing and Assurance Standards Board as the recognised international auditing standard setter. Indeed, we believe that the quality of IAASB's process and pronouncements are already benefiting from the reforms.</p> <p>We also commend IAASB and IFAC for exposing these documents for public comment. Doing so is further illustration of IAASB's and IFAC's commitment to transparency and to engaging IAASB's stakeholders in determining how the Board will operate in future – both of which were key underlying themes that we strongly supported in the IAPC Review Task Force Report.</p>

General Responses to Question (b) Do the Terms of Reference and Preface, when taken together, address all relevant matters?

<i>Respondent</i>	<i>Comment</i>
AICPA	<p>We believe that the IAASB should establish a procedure for the publication of interpretative publications. In our opinion, the public interest would be served if the procedure for interpretative publications were something less than the full due-process procedures required of standards. The justification for this abbreviated process is that an interpretive publication interprets existing, rather than establishes new, standards. This would allow the IAASB to issue helpful guidance more quickly, and free up IAASB agenda time to focus on authoritative standards.</p> <p>We believe that it would be appropriate for interpretative publications to be issued after a process of "negative clearance." That is, all IAASB members are provided an opportunity to consider and comment on whether the proposed interpretative publication is consistent with the requirements of the related ISAs. The interpretative publication would be issued under the authority of the IAASB if no inconsistencies between the proposed interpretative publication and the ISAs are identified during the negative clearance period. The Chair of the IAASB, or his or her delegate, and the appropriate staff would address issues identified by the IAASB members during the negative clearance period. The interpretive publication would not be formally "approved" or voted on by the IAASB.</p> <p>[Staff comment: Refer to Agenda Item 6-A, paragraph 22]</p>
CICA	<p>We believe that the description of the IAASB's working procedures should be expanded. It does not address projects performed by joint task forces with national standard setters. In our view, the working procedures should also allow for the possibility of the IAASB not having members on a task force, or at least not necessarily chairing task forces. There should also be scope for staff-only projects, particularly for Practice Statements, as these are of less authority than Standards.</p> <p>[Staff comment: Refer to Agenda Item 6-A, paragraph 24]</p>
CNCC	The two French Institutes consider that the terms of reference and preface, when taken together address all relevant matters. However, they have concerns on certain specific points, which should either be changed or at least clarified. They consider that the third document (Operation policy No 1), although useful, is of a more explanatory and instructive nature and is not of the same level as the first two, which state the purpose, the objectives, the procedures, and the different types and authority of documents issued

by the IAASB.

The Operation policy No 1 document would appear to be the first document in a new series of releases which, if they were to be published, would need to be referred to in the Preface and defined in terms of objectives and authority. The place to insert them in the handbook would also need to be determined.

The IAASB might therefore consider the alternative solution of publishing the Operation policy No 1 not as a stand-alone document, whose objectives and authority are unknown, but as an annex to the Preface.

[Staff comment: Operations Policy No 1 has been removed pending further deliberation by the IAASB deliberation. Refer to Agenda Item 6 for decisions made by the IAASB in May 2003]

CNCC

In paragraph 3 of the Preface, in the last sentence, a reference is made to the obligations of member bodies under the IFAC's constitution, to use their best endeavours, specifically to incorporate in their national auditing standards the principles on which are based the International Standards on Auditing (ISA) developed by IF AC.

The use of the word «principles» could be understood as referring to the black letters contained in the International Standards on Auditing (ISA). In that a case, how consistent is this point of view with the statement in paragraph 13 that « 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 » and with the last sentence of paragraph 6 « Operation policy n° 1 » which states that «for this reason, the black lettered requirements are not gathered together at the beginning of a Standard, nor are they ever published separately by IFAC?

The different wording used in the IF AC constitution, in the preface and in the « Operation policy nO 1 should not lead to confusion as to what the obligations of the IFAC member bodies really are in terms of incorporating ISAs into their national auditing standards.

So far, IFAC member bodies have used different approaches in the way they incorporate ISAs in their national auditing standards. Some appear to have simply translated the IS As (or printed them verbatim if their national language is English), with additional requirements clearly separated as national requirements. Others have introduced additional requirements or guidance into various parts of the body of the text of the IS A, whilst others have retained the spirit of the ISA and re-written the standard, as they felt most appropriate for their own country.

The two French Institutes consider that the IAASB should, although probably not in these texts, elaborate and give guidance on the appropriate way of adopting the ISAs. This question will certainly become more crucial as we approach 2005 when the European Commission envisages the adoption of ISAs in the European Union. It is foreseeable that the European Commission will have at that time a preferred approach, which hopefully will be consistent with the IAASB's views.

[Staff comment: Staff is developing a policy statement addressing convergence and the appropriate way to adopt ISAs based on the discussions at the last meeting of the National Standard Setters. This proposed policy statement is to be considered by the IAASB at its July 2003 meeting.]

FACPCE

In our opinion, among the relevant matters which should be considered corruption and fraud as well as, money laundry could be addressed and included therein. In addition to this, we would like to suggest the fact of adopting the use of Spanish language since it is already taken into account within the Accounting Standards.

[Staff disposition: The Terms of Reference and Preface are intended to establish the overall operating framework for the IAASB in terms of its structure, authority, mandate, processes and output. Pronouncements on specific topics, such as fraud and the auditor's roles and responsibilities, are addressed in individual standards subject to due process. Reference to current issues in the profession may result in a need to revise these documents as the environment changes. Accordingly, no change has been made.

English is the working language of the IAASB; adoption of Spanish as the official language may be problematic. Translation matters are currently being addressed by IAASB Staff.]

FAR

Our opinion is that all relevant matters are addressed.

FEE

FEE suggests mentioning explicitly in the Terms of Reference as well as in the Preface that international standards must be "principle-based" and not "rules-based". This would be consistent with the discussion in Operations Policy No 1 on black lettering. However, we note that while bold paragraphs are intended to include basic principles and essential procedures and current ISAs are excellent in specifying essential procedures, it is less clear how basic principles are dealt with. The IAASB might wish to consider articulating its overriding principles in its proposed "Assurance Framework" and to find an appropriate way of ensuring that such principles are identified in its standards.

[Staff comment: The revised Terms of Reference include a statement that IAASB Standards are based on basic principles and essential procedures, consistent with paragraph 13 of the Preface. These terms are meant to indicate that international standards are to be developed using the "principles-based" concept. Comments on the overriding principles to include in the "Assurance Framework" are to be provided to the Assurance Task Force for consideration during exposure and to the Revisions Committee.]

FEE We believe that the Preface ought to include a definition of the nature of appendices to Standards or Statements and in particular whether the guidance included in ISA appendices may be binding on the auditor.

[Staff comment: Refer to Agenda Item 6-A, paragraph 29]

Grant Thornton We support the substance of the proposals and agree that it is helpful to divide the standards issued by the IAASB into:

- Engagement Standards
- International Standards on Auditing
- International Standards on Assurance Engagements
- International Standards on Related Services
- International Standards on Quality Control

We also agree that the ISQCs should apply to all services covered by the Engagement Standards.

Grant Thornton The Preface sets forth the various documents that the IAASB may issue. We believe, however, that it is very important for the IAASB to establish a method to issue interpretations for its documents. The extent and complexity of the standards are such that practitioners will need this assistance to properly implement the standards. The IAPs have not been used for this purpose to date and do not appear to be the appropriate vehicle by which this guidance should be provided.

[Staff comment: Refer to Agenda Item 6-A, paragraphs 21 and 22]

HKSA We believe the Terms of Reference and Preface, when taken together should address all relevant matters.

PAAB We believe, subject to the comments above, that the Terms of Reference and Preface, when taken together, address all relevant matters.

PwC In general, we are satisfied that the Terms of Reference and Preface, when taken together, address most of the relevant matters.

While we are broadly supportive of the changes proposed, we believe that further review and change is needed to IAASB's governance arrangements if its pronouncements are to earn the endorsement of key stakeholders, such as the European Commission (EC) and International Organisation of Securities Commissions (IOSCO). The IAPC Review Task Force, having concluded that serving the public interest is critical to IAPC's mandate, identified independent public oversight and a transparent nominating process as being necessary to the perception that IAPC operates in the public interest. Changes in the external environment in which IAASB operates have heightened their importance. We believe IAASB and IFAC need to introduce further enhancements to the governance and due process of audit standard setting. This exposure draft may not be the place to make those changes – some may require action at IFAC Board level – but we consider them to be of sufficient importance that we highlight them briefly in this letter.

Issues we believe IFAC/IAASB needs to consider further are:

- arrangements for the selection and succession of the leadership of IAASB, particularly the Chair and Vice-Chair. Currently, the appointment of the Chair and Vice-Chair does not follow a transparent process and the criteria used for making the selections are unclear. Clearly the selection should be based on overt application of the principle of selecting the "best person for the job" with emphasis on expertise, experience, stature and leadership ability rather than, for example, geographical representation. Further, there may be scope for wider consultation among key stakeholders on the appointment process. **[Staff comment: Refer to Agenda Item 6-A, paragraph 17]**
- "public oversight" of the standard-setting function. There is a growing expectation that there should be appropriate oversight of key public interest activities, including

auditing standard setting. Stakeholders such as regulatory bodies are currently represented in IAASB's Consultative Advisory Group (CAG) that meets twice a year. While the CAG provides a helpful advisory function, we do not believe that it provides an appropriate platform for obtaining the input of key constituencies on issues of strategy and acceptability of the standards in a regulatory context. IFAC should consider establishing a separate governance group over IAASB that would be demonstrably representative of the public interest. **[Staff comment: Comments provided to IFAC Officers and to be provided to the IFAC Board]**

UK APB

Yes.

The APB is concerned by the potential for conflict between the requirements set out in the IFAC Code of Ethics for Professional Accountants (The IFAC Code) and those in national or European ethical codes. As countries improve national ethical requirements, a requirement within ISAs to comply with the IFAC Code may inhibit the adoption of international auditing standards. In Europe, for example, the EC has issued a Recommendation which extends, and in some respects differs, from the IFAC Code. The APB believes it will be very confusing for auditors to have to comply with differing ethical standards, and considers that the linkage between ISAs and the IFAC Code should be reviewed. The APB notes that the IFAC Code states that it is intended to serve as a model on which to base national ethical guidance. For ISAs to require direct application of the IFAC Code goes beyond that intent and is inappropriate. **[Staff comment: Noted for discussion]**

General Responses to Question (d) Is the restructuring of the Handbook understandable and effective?

(For Staff comments in response to the general responses to Question (d), refer to Agenda Items 6-A, paragraphs 9-13)

Respondent	Comment
ACCA	<p>The proposed restructuring is shown in an Appendix to the Preface. The document provides an overview of the structure of the technical pronouncements for services addressed by IAASB. We find the proposed structure to be logical and understandable.</p> <p>There is, however, no explanation of how the material relates to the existing IFAC Handbook structure, which includes: general information on IFAC, material on assuring the quality of professional services and the Code of Ethics for Professional Accountants.</p> <p>This is important because of the proposed inclusion of quality control standards which will have a general designation as 'International Standards on Quality Control', rather than one specifically relating to auditing, assurance and related services.</p> <p>Although some responding to this exposure draft will be aware of the fact that an IFAC Board Task Force is revising International Professional Practice Statement 1: Assuring the Quality of Professional Services (which in its revised form will be renamed Statement of Membership Obligations 1), it would have been helpful if the exposure draft had given information on this, and on the overall structure of IFAC pronouncements, in order to allow the proposed structure of IAASB pronouncements to be seen in context.</p>
AICPA	<p>The chart seems to imply some form of "umbrella" standards for agreed-upon procedures and compilation. The intent is not clear. As previously mentioned, no framework or foundation supports the creation of such a category of services.</p>
AICPA	<p>The chart in the appendix indicates that the Assurance Framework is to be "derived from" paragraphs 1-30 of the current ISAE 100. Similarly, ISA 100 is to be "derived from" ISA 120 and 200, and ISAE 2000 is to be "derived from" paragraphs 31-74 of the current ISAE 100. The words "derived from" are not proper expressions of what is likely to transpire. We suggest that the anticipated standards are more likely going to "replace" the existing guidance.</p>
AuASB	<p>The AuASB has no specific concerns in relation to restructuring of the IFAC Handbook at this stage. However, we believe that the IAASB's Assurance Framework Project and Audit Risk Project may impact the restructuring of the Handbook. We recognise that considerations related to the sequencing and linkage of standards and guidance resulting from the restructuring of the IFAC Handbook, may need to be considered further at a later date, in tandem with the implementation of existing proposals and the development of new Standards for the above projects.</p>
Basel	<p>As explained in the Invitation to comment, the IAASB intends to restructure the Auditing and Assurance Handbook. Four different sections would be used:</p> <ul style="list-style-type: none"> • Quality control

- Audits and reviews of historic financial information
- Assurance engagements on other subject matters
- Related services

The underlying conceptual structure is however that the concept assurance is intended to comprise "audit" and "other assurance". This is also made clear in the diagram included in the draft Preface, where an "Assurance Framework" is intended to cover both "audit" and "other assurance engagements". IAASB's audit standards are of particular importance. They aim at global use and have to be understood easily by readers in a great number of countries, not only by the individuals that closely follows the IASB's work. We believe that the intended structure does not support this objective, as it is impractical and unclear. Already the name IAASB ("...auditing and assurance standards...") makes it clear that audit and assurance are supposed to be different approaches. Even the drafting of the ED itself shows that the term "assurance" is frequently used meaning "other assurance". In contrast, we believe that it should always be entirely clear what standards covers auditing.

The IAASB further explains that quality control should be a joint section for all services covered by the IAASB standards (audit, assurance, related services). However, there may be cases or issues where a higher ambition is needed for audit than for other services. We therefore note that having joint quality control standards for audit and other services may introduce a risk of not paying sufficient attention to those cases in the development of the standards.

Concerning drafting, we note that the word "historic" is sometimes used in association with audit, such as audit of historic financial statements or historic financial information. We believe that financial statements is a defined term and that adding the term "historic" introduces lack of clarity and not precision. Also the use of the term "historic" in "historic financial information" appears to be unwarranted. We suggest that audit should be defined in relationship to financial statements and other statutory assessments (such as the exercise of directors' duties).

CICA We also believe that it is important for the IAASB to restructure its Handbook to best accommodate current and future documents. By doing this, we believe the IAASB will be better positioned to achieve its objective of improving auditing and assurance standards and the quality and uniformity of practice throughout the world.

CNCC The French Institutes consider that the restructuring of the handbook is understandable and trust that it will be effective.
It is, however, complicated and will lead to the creation of an increased number of acronyms (ISQC, ISRS, ISA, ISAE, IAPS, IAEPS, IRSPS...), which might be confusing for individuals who are not very familiar with the work of the International Auditing and Assurance Standards Board (IAASB).

Furthermore, it is difficult to foresee how the potential problems of overlap and redundancy between the International Statements on Assurance Engagements (ISAE) 2100-2399 dealing with topics that apply to all subject matters, such as "evidence" or "using the work of an expert" and the corresponding IS As dealing with the same topics, will be overcome.

FAR We believe that the new structure gives a good description of the services addressed by IAASB.

FEE The proposed new structure is understandable but the proliferation of new abbreviations will not be easy to explain to users, regulators and practitioners. It is also unclear how IAASB Operations Policies fit in the new structure.

The draft combines into one category of ISAs "Audit and Review of Historic Financial Statements". The IAASB's objectives are difficult to understand when reading the explanation in paragraph 5 (b) of the Invitation to Comment. In particular, some clarification is needed on the concept of "review". How can reviewers be properly understood by external users when reporting "We have conducted our review, which is not an audit, in accordance with International Standards on Auditing"? FEE believes that it would be preferable to have a special category of standards for review engagements. We also consider that, in general, the IAASB should refer to "historical" rather than "historic" financial statements and information.

Considering the ISQCs, we understand that the decision is the consequence of the Board's decision to split quality control issues related to audit firms and to specific engagements. This raises two questions:

- How many ISQCs does the IAASB expect to develop and if, as we expect the number is fairly limited, is it really a good idea to establish a separate category of standards?
- Making a separate category of ISQCs involves dealing with quality control in ISA 200 as with ethical principles (paragraph 4); in other words IAASB should explicitly mention

as a general principle of an audit that the auditor should comply with ISQCs and refer to that compliance in the audit report.

- Grant Thornton We have noted the suggested numbering of the standards. While the numbering system is necessary for a codification of the Standards, we believe it would be useful to begin numbering the standards sequentially under each heading when they are issued, i.e.:
- ISAEs 1 to X
 - ISAs 1 to X
 - ISRSs 1 to X, etc
- Sequential numbering helps to highlight when a new standard is issued.
- HKSA We support the proposed restructuring of the Handbook. Appendix to the Preface provides a good graphic illustration of the proposed structure of the IAASB's Technical Pronouncements.
- HKSA We note from point 5 of the Invitation to Comment as well as the diagram appeared on page 10 of the Exposure Draft that the new Structure of the IAASB's Technical Pronouncements will include four separate sections;
- (a) quality control;
 - (b) audits and reviews of historic financial information;
 - (c) assurance engagements on other subject matters; and
 - (d) related services.
- First of all, as regards the ISA framework, while we concur with the defined scope of this section, i.e., "audit and reviews of historic financial information", we believe that opportunity should be taken to review the audit process and reporting under ISA 800.
- An audit of "historic financial statements" under ISAs 200-799 results in an auditor's report which includes an auditor's opinion as to whether the financial statements give a true and fair view (or are presented fairly, in all material respects,) in accordance with a full GAAP financial reporting framework.
- While we believe that many of the audit principles and procedures are equally applicable to the audits of "historic financial statements" as currently envisaged under ISAs 200-799 and audits of "other historic financial information" envisaged under ISA 800, the reporting thereof should be differentiated.
- For auditors' reports issued under ISA 800 on "other historic financial information" such as statement of cash receipts and disbursements, schedule of accounts receivable or schedule of profit participation, etc, where in the absence of a generally accepted financial reporting framework, we believe that the expression of a "true and fair view" opinion by auditors on such information is not appropriate and in fact misleading and contributory to the expectation gap on the part of the users.
- IAASB is requested to consider the provision of other form of opinion by auditors for "historic financial information" which is not prepared in accordance with a generally accepted financial reporting framework.
- ICANZ The PPB supports the IAASB's intention to restructure the Auditing and Assurance Handbook. In 1998 the PPB codified its auditing standards in large part to harmonise with the ISAs issued by the then International Auditing Practices Committee. At that time a conscious effort was made in New Zealand to develop standards that could be applied to all high-level assurance engagements, irrespective of the subject matter.
- The PPB is currently reviewing the Framework for Professional Engagement Standards in New Zealand and has attached a copy of the proposed new framework as Appendix 1. The main change to be proposed is to adopt the assurance/non-assurance terminology. The adoption of this terminology along with the revision proposed by the IAASB will further reduce the differences between the two frameworks.

Generic standards

...the PPB believes that "Audits and Reviews of Historic Financial Information" and "Other Assurance Engagements" should be included under one section. The PPB does not agree with the IAASB's statement that generic standards may be less effective than the current documents on issue.

The New Zealand standards are generic and parties using the standards have encountered no difficulties that the PPB is aware of. An advantage of the standards being generic is that they are applicable to a broader range of audits than historic financial information and, in New Zealand, are used by the Auditor-General as the basis for standards for the conduct of the audit of public sector entities.

Related services framework

The PPB recommends that the term "Related Services Framework" contained in the Structure of the IAASB's Technical Pronouncements (Appendix) be amended to "Non-Assurance Framework" for clarity as the "related services" referred to are not in any way related to the "assurance" services.

The distinction between "Assurance" and "Non-Assurance" engagements is clearer and more comprehensive in that such a distinction covers all engagements, whereas "related services" potentially does not cover all non-assurance engagements. As additional standards are developed, they can be easily included under the "Non-Assurance Framework". For example, the proposed New Zealand framework includes standards on Advisory Engagements, Insolvency and Taxation.

Quality control

The PPB supports the proposal of the IAASB for "Quality Control Standards" that would address firm-wide quality issues. This is the approach that we have taken.

The PPB encourages the IAASB to reconsider its decision to separate "Audits and Reviews of Historic Financial Information" from "Other Assurance Engagements". The PPB recommends that a separation between "Assurance Engagements", incorporating Audits and Reviews of Historic Financial Information and Other Assurance Engagements, and "Non-Assurance Engagements" is more appropriate.

The PPB does not concur with the IAASB's reasons for not including all assurance engagements in one section of the handbook. The goal of the IAASB should be the development of a set of generic standards that apply to all assurance engagements to the maximum extent possible. For example, Planning, Terms of Audit Engagements and Documentation apply to all assurance engagements, not only to audits and reviews of historic financial information.

For several years now, the PPB has been working to develop audit 1 standards that can be applied to all high-level assurance engagements regardless of the subject matter. In our experience the principles relevant to audits of financial reports are, in general, also relevant for other high-level assurance engagements.

The scope of each New Zealand auditing standard is identified as applying to all audits, all attest audits, or all audits of financial reports. No standards need to be duplicated because the standards are for a much broader range of audit than only audits of financial reports. Most general types of audit standards apply to all audits, for example, Audit Evidence, while most procedural types of standard apply specifically to audits of financial reports, for example, Going Concern.

The New Zealand standards all contain an "Applicability" paragraph. The following paragraph is standard wording in the standards that apply to audits of financial reports:

"Applicability: *This Standard applies to all audits of financial reports. While the scope of this Standard is limited to audits of financial reports, much of the guidance contained in this Standard is applicable to any audit.*"

This paragraph, therefore, emphasises to users of the standard that the guidance may be applicable to other types of audits.. As a result of this applicability to other types of audits, no standards need to be duplicated and the current standards on issue in New Zealand will be easily incorporated into the proposed new framework for New Zealand.

The PPB notes that the Audit Risk exposure drafts issued for comment and many of the ISAs (for example, ISA 200, ISA 240, ISA 320, ISA 580) currently on issue contain the following statements in a box beneath the Contents section of the standard:

"International Standards on Auditing (ISAs) are to be applied in the audit of financial statements. ISAs are also to be applied, adapted as necessary, to the audit of other information and to related services."

This statement confirms that the separation of "Audits and Reviews of Historic Financial Information" from "Other Assurance Engagements" is artificial and unwarranted. The PPB recommends that the statements regarding the applicability of the ISAs to the audit of other information be included as paragraphs within the standard rather than the current situation of including the statements in a box.

	<p>In New Zealand an audit is defined similarly to a high-level assurance engagement under the IAASB framework.</p> <p>“An audit is a professional engagement designed to enable an independent auditor to provide a high, but not absolute, level of assurance to users through:</p> <ul style="list-style-type: none"> • the issuance of a positive expression of an opinion that enhances the credibility of a written assertion, or set of assertions, about a matter of accountability (“attest audit”); or • the provision of relevant and reliable information and a positive expression of opinion about a matter of accountability where the party responsible for the matter of accountability does not make a written assertion, or set of assertions (“direct reporting audit”).”
Instituto Nacional de Contradores Publicos de Colombia	<p>The restructuring of the handbook is understandable and effective. We have two comments:</p> <ol style="list-style-type: none"> 1. There will be topics as assurance services related to Internal Controls that may be applicable to all areas. This type of standards should be called basic or core standard. 2. We think that the term "historic" included together with financial information misleads to ignore valuation methods such as the fair value. We recommend you to consider excluding this term, although we understand your aim to distinguish between historic and prospective information.
JICPA	<p>We support the structure of the proposed “Structure of the IAASB’s Technical Pronouncements” in the Appendix, except with regard to practice statements for International Standards on Quality Control (ISQCs), as we consider that such practice statements may be needed in the future.</p> <p>We suggest that the proposed “Structure of the IAASB’s Technical Pronouncements” should be amended to include a box for “International Quality Control Practice Statements (IQCPs)” under the box of “ISQCs 1-99 ‘Quality Control Standards’”.</p>
Mortensen & Beierholm	<p>The new system of naming the standards differently between the groups is unnecessary and will lead to further confusion among professionals as well as users of the work of auditors. It seems pretentious to expect third party to be able to distinguish between ISA, ISAE, ISQC, IAPS, OSRS and IRSPS. Grouping the standards and practice statements by numbers is sufficient.</p>
PwC	<p>There are undoubtedly a number of ways that IAASB’s various pronouncements could be structured. We believe that the proposed model is a useful structuring, with the following caveats.</p> <p>The term “Related Services” was created many years ago when the range of services covered by standards was more limited and clearly defined. We do not believe this term is appropriate today. A compilation is not “related” to an audit or assurance engagement; it is quite a distinct service. We are particularly concerned that the term could be confusing in light of the interaction of the Independence framework in the IFAC Code of Ethics and the assurance framework. A reader may presume, for example, that by virtue of being a “related service”, the threats and safeguards regarding independence associated with an agreed-upon procedures or compilation engagement would be the same as that for an audit. For these reasons, we strongly recommend that a different title be used. In fact, we question whether a generic title for these other services is necessary, as there seems little need for a framework governing these diverse types of services. It might be best to simply refer to them as agreed-upon procedures and compilations.</p> <p>Our second caveat relates to the relationship between the Assurance Framework and the ISAs. In the existing ISAE, there is a statement that the Standard does not supersede the existing International Standards on Auditing. It does not apply, therefore, to an audit or review of financial statements. This was a practical solution that avoided any conflicts between the assurance framework and existing established practice. The proposed structure would place the Assurance Framework over both the ISAs and ISAEs. We agree that, in principle, audit and review of historic financial statements and other historic financial information are assurance engagements. But we do caution IAASB that it will need to carefully consider whether the existing ISAs do comply fully with that framework and resolve any differences.</p> <p>Finally, we question whether the split between those subject matters that would fall under “Assurance Engagements” and those that are the audits or reviews of “other historic financial information” will be easy to distinguish. In particular, we question whether all engagements dealing with compliance with contractual agreements – which is currently addressed in ISA 800 – will necessarily focus on financial information. It may prove easier to define the first category as historic financial statements and financial information derived from the financial statements (such as a component of the financial statements) and to reposition compliance with contractual agreements under the Other Assurance Engagements umbrella.</p>
UK APB	<p>Generally the APB supports the proposed structure. However, as described in the covering letter, we have reservations about whether there should be a commitment to developing standards on ‘topics that apply to all subject matters’ for assurance engagements and believe that great care should be taken not to give the impression that the</p>

corpus of international standards on auditing apply to reviews of historical financial information.

The Appendix to the Preface indicates that Standards for reviews of historical financial information will be dealt with in the same series of Standards as audits. The APB considers that this is acceptable provided that it is made entirely clear that a different level of assurance is provided by a review and that different operational standards apply. The APB would not support the proposed classification if (a) there are cross references between an ISA dealing with reviews to ISAs dealing with audits, and (b) the opinion on a review engagement refers to the corpus of 'international auditing standards'. On balance the APB believes that it might be preferable to include reviews within Other assurance engagements.

While the APB supports the segregation of ISAs and ISAEs it observes that the proposed structure is likely to result in a degree of duplication in relation to 'topics that apply to all subject matters'. Examples might be use of experts, planning, using the work of another auditor. The APB would favour subject specific standards being as self-contained as possible. Until it is clear that 'topics that apply to all subject matters' are necessary the APB suggests that the IAASB should not commit to them in any published structure.

General Responses to Question (e) Are there any terms, phrases or concepts in the Preface that would be particularly difficult to translate into other languages or that might be ambiguous when translated?

Respondent	Comment
CICA	<p>The IAASB should first be commended for its concern about translation into other languages and the difficulties translators may face.</p> <p>We have two comments. The first one is a point of information concerning translation of the word "assurance" into French. The second is a suggested amendment to the wording of paragraph 13 in the Preface (and consequential amendments in Operations Policy No. 1), concerning "black lettering" that may be useful for translators working into a number of languages.</p> <p>Translation of "assurance" into French – point of information</p> <p>The translation of "assurance" into French is an issue due to the proximity of the French and English languages. While the French word "assurance" could be used in some of the instances where "assurance" is used in English, for instance assurance engagement/mission d'assurance, a problem arises because the French word "assurance" means both assurance and insurance. Thus the equivalence assurance/assurance is impractical in some expressions like assurance issues, assurance standards, assurance literature, assurance provider and the like, as the reader is likely to think of insurance issues, insurance standards, insurance literature and insurance provider. For that reason, the word certification was preferred in French in Canada and is generally used by the Canadian profession. The French and Belgian professions have difficulty with this term, which they use in other contexts, but have yet to provide an alternative that would be fully operational. We hope that this matter can be solved in a satisfactory manner as part of discussions involving the Belgian, IRE, the French CNCC and the CICA that will take place shortly in Brussels, under the aegis of IFAC, to select the terminology for translating ISAs into French.</p> <p>Black letter, black lettering</p> <p>The use of these colloquial expressions creates a problem in that it leaves us with an incomplete pair of terms. While "basic principles and essential procedures" is opposed to "explanatory and other material," "black letters" is not opposed to another type of graphical element but to "explanatory and other material." This leads, especially in Operations Policy No. 1, to a considerable use of this expression which, because it includes the word "other," takes on its full meaning only when opposed to "basic principles and essential procedures." It might be clearer for translators and readers if black letters/black lettering was replaced by "bold face" which could be opposed to "light face." Thus, paragraph 13 could read as follows:</p> <p>Engagements to which the IAASB's Standards apply require the exercise of professional judgment. The light faced material assists the professional accountant in exercising that judgment. For example, in some ISAs the light faced material lists detailed procedures that might be appropriate in carrying out a bold faced requirement. The professional judgment of the auditor will determine whether any or all of those detailed procedures are appropriate to obtain sufficient appropriate audit evidence in the particular circumstances. Indeed, there may be other detailed procedures that are not listed in the ISAs that would provide the evidence needed by the auditor more effectively. No set of Standards can hope to anticipate all the details of all scenarios.</p> <p>With a clear opposition between bold face and light face, Operations Policy No 1 could be redrafted in a way that may make it easier to translate.</p> <p><i>[Staff comment: Operations Policy No 1 has been removed pending further deliberation by the IAASB deliberation. Refer to Agenda Item 6 for decisions made by the</i></p>

IAASB in May 2003]

CNCC	<p>Apart from the difficulty already discussed of translating the nuances of the «should », « should consider », «would », etc., the term « assurance » used in « assurance engagements » is also very difficult to translate into French where it is usually understood to mean « insurance ». The French Institutes would therefore recommend that the term "assurance engagement" be replaced by "opinion engagement".</p> <p>[Staff comment: Noted for consideration by the IAASB team addressing translation]</p>
FACPCE	<p>We suggest that a list of the initials used and the meaning of each one of them be included at the beginning of each standard.</p> <p>[Staff disposition: When used for the first time in a pronouncement:(a)acronyms that are not in the Glossary; and (b)all but common abbreviations, are spelled out. No change considered necessary.]</p>
FAR	<p>We have not found any word or phrase that would be difficult to translate.</p>
FEE	<p>An ideal translation of the word "assurance" is difficult in every language. Whilst we do not have any suggestion for dealing with assurance, it does highlight the need for the IAASB to consider translation issues as an integral part of its future work, for example by maintaining a glossary of terms and by avoiding the use of different English terms where there is no clear intention to convey different meanings.</p> <p>[Staff comment: Noted for consideration by the IAASB team addressing translation]</p>
ICANZ	<p>The PPB considers that there are no terms, phrases or concepts in the Preface that might be difficult to translate or ambiguous when translated.</p>
Instituto Nacional de Contradores Publicos de Colombia	<p>Assurance and Non-assurance are two words that may have several translations in other languages. IFAC should have an official translation of Standards to standardize terms in other languages. In English, we have one term. In other languages we may call things by different names. At least, the glossary should be official for each language. IFAC could consider what the IASB did for their versions. We consider that standardization across countries using the same language, at least in the assurance terms, should be achieved to be global and have universal understanding.</p> <p>[Staff comment: Noted for consideration by the IAASB team addressing translation]</p>
Mortensen & Beierholm	<p>From first hand experience I can confirm the difficulties in translating the concepts meaningful into a second language. I am afraid this cannot be helped. The building of sentences, however, can be helped. The use of interposed sentence-building makes it difficult to understand the meaning in general, but even more difficult to translate. Small is beautiful, and so is short standards and short sentences. A number of countries translate ISAs into their own language, a work that should be encouraged.</p>
PwC	<p>We have not identified any particular terms, phrases or concepts that we are aware would cause problems on translation.</p>
UK APB	<p>The APB fears that the word 'assurance' may give rise to difficulties in other languages, but this is primarily a matter for respondents of other nationalities to comment on.</p>

Specific Comments

Paragraph 1 – 3 Introduction

Paragraph 1

1	ACCA	The Preface states that it is issued to facilitate, inter alia, the understanding of the objectives of IAASB. The objectives are not set out in the Preface, however, nor is there any cross-reference to the Terms of Reference. We suggest that the Preface is revised so as to include all relevant information and that the Terms of Reference are constructed as an extract thereof. This will have the added benefit of removing anomalies, such as references to agenda papers being published on two different websites.	Y	Paragraph 1 of the Preface has been amended to include a reference to the IAASB Terms of Reference, as suggested. All references to websites have been amended to consistently refer to the IAASB website.
2	Basel	...we recommend that the Preface, a document to be issued by the IAASB itself, should not be used as a governing document. Rather, this should be done in the Terms of Reference or, preferably, a Charter for the IAASB. On the other hand...we believe that the issue of black and grey lettering should be dealt with only in the Preface and not, as suggested in the proposal, in addition be explained in an Operations Policy. Possible differences between gray and black letters are highly relevant for the reading and understanding of the standards and should be fully explained in a Preface.	Y	Staff has added a proposed description of the nature and purpose of Operations Policies to paragraph 24 in the proposed Preface. If the use the bold type lettering convention is decided to be retained, the Operations Policy appears the appropriate place to provide the necessary additional guidance on its intention and use.
3	DTT	Paragraph 1: After the phrase, "This preface to the International Standards on Quality Control, Auditing, Assurance, and Related Services," add "(“International Standards” or “IAASB’s Standards”)."	Y	Agreed. Change made as suggested.

Paragraph 2

4	Basel	The proposal explains that IFAC has established the IAASB to issue standards on its behalf. We believe that the meaning of this is unclear and that it may even counter the ambition that the IAASB should be - and be seen to be - an independent standard setting body.	Y	Recent IAASB discussions with IFAC have clarified the IFAC Board's view that the IAASB acts on behalf, and under the auspices, of the IFAC Board. Staff has however clarified the fact that the IAASB independently sets standards by stating in the Preface: "In pursuing this mission, the IFAC Board has established the IAASB to develop and issue, under its own authority, standards..."
5	FEE	The expression "high quality standards" is used in the first and second bullet points of the first paragraph of the Terms of Reference as well as in paragraph 2 of the Preface. Some readers might attach some importance to the fact that the same expression is not used elsewhere, especially in the third and fourth bullet points. We suggest that this be changed.	Y	Agreed. The first through third bullets in paragraph one of the Terms of Reference and paragraph 2 of the Preface (in relation to the IAASB) have been amended as suggested.
6	PAAB	The last sentence of paragraph 2 states that the IAASB has been established to develop and issue standards and statements on auditing, assurance and related services and quality control	N	It is not considered appropriate to place paragraphs 8-13 and 17-18 within the introductory section of the Preface.

		standards for use around the world. It is recommended that paragraphs 8-13 and 17-18 be relocated to follow paragraph 2 in order facilitate an understanding of what standards and statements are and what is meant by auditing, assurance and related services and quality control.		Current set-up appears appropriate.
7	PwC	For reasons regarding possible perception of undue influence by IFAC in IAASB's standard setting process, we suggest referring the IAASB developing and issuing standards and statements "on its own authority" rather than "on its [i.e., IFAC's] behalf".	Y	Agreed. See response to comment no. 4
8	PwC	We believe that the Preface would be improved if it included greater prominence of and a stronger message regarding IAASB's relationship with national standard-setters. We believe that IAASB's relationship with national standard setters is vital to convergence of auditing standards globally. Given its importance, we suggest adding a paragraph in the Introduction to the Preface that says: "IAASB is committed to the goal of an international set of auditing standards generally accepted world-wide. To further this goal, IAASB aims to establish international standards that are generally accepted as appropriate best practice to which national standard setters can subscribe and works cooperatively and takes a lead role in joint projects with national standard setters to promote convergence, eliminate differences between national and international standards and achieve broad acceptance of its standards".	Y	Agreed. Suggested paragraph has been added as the last paragraph in the Introduction section of the Preface. This recommendation further explains and elaborates on the first sentence in paragraph four of the proposed IAASB Terms of Reference, which currently is not addressed in the proposed Preface.
		Paragraph 3		
9	AICPA	Paragraph 3 is confusing. It is unclear whether the paragraph is directed to the auditor conducting a particular engagement, or to the member body to which the auditor belongs. The paragraph starts by describing the relationship between the IAASB's standards and the local laws and regulations with respect to a particular engagement, but then goes on to describe what the member body should do in cases where there is conflict. We are left wondering what the auditor should do in such circumstances. Furthermore, the paragraph raises questions as to whether the IAASB's pronouncements are merely suggestive. We recommend that this paragraph clearly state that a professional accountant should not represent compliance with the IAASB's pronouncements unless he or she has complied with all of the requirements of such pronouncements.	Y	Agreed. As suggested, a statement regarding representation by a professional accountant regarding compliance with IAASB pronouncements has been added as a final sentence to paragraph 3. The discussion regarding the obligation of member bodies, and the related reference to the IFAC Constitution, has been deleted as this is to be the subject of the IFAC Board's SMOs.
10	CPA Australia	There is some inconsistency in the Exposure Draft regarding use of the words "engagement(s)" and "service(s)". For example, paragraph 3 of the Preface says: "The IAASB's pronouncements govern assurance and related services that are conducted in accordance with International Standards.". We recommend that it read "The IAASB's pronouncements govern assurance and related service engagements that are conducted in accordance with International Standards."	Y	Agreed. Change made as suggested.
11	DTT	At the end of this paragraph, add the following sentence, "A professional accountant should not report compliance with the IAASB pronouncements unless he or she has complied with all of the requirements of such pronouncements."	Y	Agreed. Change made as suggested.
12	Grant Thornton	Paragraph 3 of the Preface should recognize "audits". We recommend the first sentence be changed to read, "The IAASB's pronouncements govern audit, assurance and...."	Y	Agreed. Change made as suggested.

13	KPMG	The terms "historic" information or "historic" financial information are used throughout the document. We believe that it is more appropriate to change the word "historic" to "historical".	Y	Agreed. Change made as suggested.
14	PwC	<p>We are concerned, however, that the statement of the authority of IAASB's pronouncements in paragraph 3 of the Preface undermines that authority. The dominant message in the paragraph is that local laws and regulations override the ISAs and other IAASB pronouncements and that national standards have precedence over the international standards. In fact, we believe that the ISAs and other IAASB pronouncements should be seen as the basis for national standards, with additional procedures imposed by national standards only as necessary to respond to unique local laws or circumstances. The aim should be for local differences to be the exception rather than the rule. Our concern is that by placing this discussion in the Preface, it may imply that differences are not only expected but that, regardless of the nature of the local requirement, its precedence over IAASB's pronouncements is condoned. Furthermore, the paragraph could be interpreted to imply that in circumstances in which a professional accountant fails to comply fully with IAASB's pronouncements in order to meet local requirements, the professional accountant is still considered to have complied with IAASB's pronouncements.</p> <p>If IAASB pronouncements are to have credibility as an authoritative set of international standards in their own right, the message must be that professional accountants must comply with all of the relevant IAASB pronouncements in the circumstances in order to assert that they have complied with the international standards. This would be similar to the guidance in IAS 1, Presentation of Financial Statements (Revised 1997) that restricts the use of entities referring to complying with the International Accounting Standards to circumstances when they have fully complied with them. Nothing more needs to be said in defining the authority of the standards in the Preface.</p> <p>We believe the discussion of the relationship between IAASB's pronouncements and local laws and regulations is a matter of professional responsibility and would be better placed in the Statements of Membership Obligations (with respect to the obligation of member bodies to use best efforts to implement the ISAs in their national auditing standards) and in the Code of Ethics (with respect to the professional standards with which a professional accountant who is a member of a member body of IFAC must comply).</p>	Y	Agreed. See response to comment no. 9.
15	UK APB	Although there is an overriding IFAC requirement for member bodies to use their best endeavours to incorporate ISAs within their national standards we do not believe it is helpful to state this in the final sentence of paragraph 3 and in the footnote and suggest that both are deleted. We believe that the actions required of member bodies should be set out in the IFAC Constitution and in Statements of Membership Obligations and that they have no place in IAASB Statements. We believe that the guidance in the second and third sentences of paragraph 3 of the Preface correctly describes the position when there are differences between national and international standards. We are concerned that the reference to the IFAC requirements in the Exposure Draft detracts from the clarity of this.	Y	Agreed. See response to comment no. 9.
16	UK APB	The APB believes that the first line should refer toaudit, assurance and related services.....	Y	Agreed. See response to comment no. 12.

Paragraphs 4 -7 – The International Auditing and Assurance Standards Board
Paragraph

4

17	Basel	In paragraph 4, the International Auditing and Assurance Standards Board is defined to be a standing committee of IFAC. We find the terminology inconsistent and suggest that the IAASB should be described as a Board established by IFAC.	Y	Agreed. Change made as suggested.
Paragraph 5				
18	ACCA	In paragraph 5, there is a reference to the 'Forum of Firms'. In contrast to the way the Public Sector Committee is designated as 'IFAC's Public Sector Committee', there is no obvious connection between the Forum of Firms and IFAC. We suggest, therefore, that a footnote is used to explain that the Forum of Firms is an organisation of international firms which perform audits of financial statements which are, or may be, used across national borders.	Y	Agreed. A footnote has been added describing the Forum of Firms.
19	AICPA	The last sentence in paragraph 5 states that members who absent themselves from two meetings in any twelve-month period may be required to resign from the IAASB. This suggestion begs the question: Who imposes this requirement? We suggest that the sentence read, "... may be requested to resign..."	Y	The approved IFAC Internal Reference Manual, Appendix 4A states: "Failure to be represented at two successive meetings may result in removal from membership". This provision is not a requirement and, accordingly, the suggested change has been made to more clearly reflect the provisions of the IFAC Internal Reference Manual.
20	Basel	We have also noted that the proposed Preface explains that: "IAASB members are expected to act in the common interest of the public at large and the worldwide accountancy profession". Does that really make sense if there is a conflict of interest between this profession and the needs of users?	N	Where there is a conflict, IAASB members are expected to act in the public interest. The addition of public members to the membership of the IAASB and initiatives to enhance transparency of IAASB activities act as a check and balance against this possibility.
21	DTT	To further clarify the membership requirements of the IAASB, we suggest including information on the following items: <ul style="list-style-type: none"> • Qualifications needed to become a member • Process by which the Chair is nominated • Terms served by members and the Chair once appointed, including the potential for reappointment • Description of the Chair and Vice-Chair positions 	Y	Paragraph 5 has been amended to clarify that all candidates put forth for appointment are considered by the IFAC Nominating Committee. Additional information around the basis for selection and term served has also been added. The nominating process however is the responsibility and authority of the IFAC Board and is separate from the purpose and scope of the Preface.
22	PAAB	Paragraph 5 states that "IAASB members are expected to act in the common interest of the public at large and the worldwide accountancy profession." We suggest that this should instead state that "IAASB members act ..."	Y	Agreed. Change made as suggested.
23	PwC	In addition, we believe that the Preface would be improved if it included the following matters: <ul style="list-style-type: none"> • Recognition of the roles of the Chair and of the Vice Chair in the discussion of the membership of the Board. 	Y	See response to comment no. 21. The role of CAG and TAs have been recognized by way of a footnote to paragraph 21 and 26 respectively..

- The terms of members and of the Chair and Vice Chair and the policy on renewal of terms.
- Recognition of the role of Technical Advisors and the fact that each member is entitled to one Technical Advisor who has the privilege of the floor at meetings. Technical Advisors are referred to in paragraph 25 in discussing proxies for votes, but the role is never discussed.
- The role and broad composition of the Consultative Advisory Group (CAG). The CAG is mentioned in paragraph 21 in discussing the project proposal process, but the important advisory role CAG plays in providing stakeholder input on IAASB's projects is not given appropriate recognition.

Paragraph 6

24	PwC	It is unclear what is meant by "and information may be sought from other organisations so as to obtain a broad spectrum of views". This paragraph deals with memberships and the roles and responsibilities of members. The consultation process in the development of Standards and Statements is addressed under Working Procedures. We suggest that this phrase be deleted in this sentence and the consultation process addressed more fully in the later section.	Y	Agreed. Change made as suggested.
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Paragraph 7

25	Basel	In paragraph 7, IAASB meetings to discuss the development of standards etc are open to the public. As this can be understood to mean that meetings taking decisions are not open to the public, a minor redrafting should be done.	Y	Agreed. See changes made to Preface paragraph 7.
26	CPA Australia	Paragraph 7 of the Policy notes the danger inherent in referring to "standards" with a lower case 's'. We have noted that the Preface occasionally uses the incorrect case (e.g. at paragraphs 2 and 16) and we recommend that there be a consistent use of the upper and lower case letter 's' in the word 'standard'.	Y	Agreed. A review for consistent use of 'Standard' (when used in relation to IAASB pronouncements) and 'standards' when expressed in general terms has been performed.
27	KPMG	Paragraph 7 – Reference to "other papers" in this paragraph is too broad. We are concerned that the reference could be interpreted to mean confidential papers relating to the operations of the Board such as budgets. We recommend that this paragraph be revised so that the wording is consistent with the terms of reference: IAASB meetings to discuss the development of Standards, guidance or other papers intended to advance public understanding of the roles and responsibility of professional auditors and assurance service providers are open to the public...	Y	Agreed. Change made as suggested.
28	UK APB	The APB believes that minutes of all IAASB meetings should also be published on the website a short time after each meeting so as to enhance the transparency of the IAASB's work.	N	Highlights of actions of the IAASB are posted to the IFAC website within approximately 30 days after a meeting. Full Board minutes are approved at the subsequent meeting of the IAASB and cannot be posted prior to approval. In addition, such minutes are posted to the IFAC website along with related agenda material to effect full transparency of

IAASB activities.

IFAC and Staff are presently considering addition mechanisms to improve transparency. No change recommended in the Preface.

Paragraphs 8 -16 – The Authority Attaching to Standards Issued by the International Auditing and Assurance Standards Board

		Paragraph 8		
29	KPMG	This paragraph states that ISAEs are to be applied in assurance engagements dealing with information other than historic financial information. This statement is not complete since it does not reflect the fact that ISA 100 only applies to assurance engagements for which specific standards do not exist (see ISA 100.02). An example of where this lack of clarity may pose a problem is in the case of prospective financial information. Paragraph 5(b) of the Invitation to Comment indicates that ISA 810 will be re-designated as an ISAE. If we consider ISA 100.02 when reporting on prospective financial information, an auditor would only be required to follow the requirements of ISA 810. Paragraph 8 as drafted, however, may lead an auditor to conclude that the requirements of both ISA 100 and ISA 810 have to be followed, resulting in an inconsistency in approach. We recommend that paragraph 8 be revised to make it clear that ISAEs are to be applied in assurance engagements dealing with information other than historical financial information, when specific standards for such engagements do not exist.	Y	Agreed. Change made as suggested.
30	KPMG	We recommend that the order of paragraphs 8 and 9 be reversed since paragraph 8 makes reference to "information other than historic financial information" and this information is not discussed until paragraph 9. For consistency, a conforming amendment would also be required for paragraph 11 and the order of paragraphs 17 and 18 should also be reversed.	Y	Agreed. Change made as suggested.
31	PAAB	We note that no mention is made of International Practice Statements on Related Services under the heading Authority Attaching to Practice Statements Issued by the IAASB and assume this to be an oversight.	Y	Agreed. Paragraph 18 has been amended to address IRSPSs, as suggested. This change results in greater consistency with the appendix to the Preface on the structure of the IAASB Handbook.
32	PwC	The generic term used to define the scope of the existing ISAs is "historic financial information". In the proposed structure of IAASB's Technical Pronouncements, this includes historic financial statements and other financial information. Although a longer title, we suggest referring to both as it may assist in a better understanding of the scope of subject matters. Of course, if our suggestion regarding the scope of this category is accepted, the reference would be to "historic financial statements and financial information derived from financial statements". This would need to be changed in second paragraph of the Terms of Reference and in paragraph 9 as well.	N	Staff believes the appropriate term is "historical financial information", as currently used, which subsumes historical financial statements and other historical financial information. The appendix to the Preface makes this relationship clear.
33	PwC	We suggest reversing the order of these two paragraphs [paragraphs 8 and 9], as it would better align with the proposed structure of the IAASB's Technical Pronouncements in the appendix.	Y	Agreed. Change made as suggested.

Paragraph

9

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| 34 | Basel | The content of paragraph 9 should preferably appear before the content of paragraph 8. | Y | Agreed. Change made as suggested. |
| 35 | Grant
Thornton | With respect to paragraph 9, we are concerned with the proposal that ISAs should cover reviews of historical financial information as well as the audit thereof. We believe that ISAs should only apply to audits of financial statements, the objective of which: "...is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework."

In our view "reviews of historical financial information" that do not meet the definition of an audit should be covered by ISAEs, to the extent that they meet the definition of an assurance engagement. | Y | Refer to Agenda Item 6-A, paragraphs 11. |
| 36 | UK APB | It is suggested that 'as appropriate' is inserted after 'applied'. The APB is concerned that ISAs relating to audits should be thought to apply to reviews. | Y | Agreed. Change made as suggested. |

Paragraph
10

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|----|------------------|---|---|--|
| 37 | AICPA | Paragraph 10 discusses International Standards on Related Services (ISRSs). No framework or foundation supports the creation of such a category of services nor does there appear to be a boundary for what is, is not, or what should be included in any such category. Currently the only ISRSs contemplated are for compilation and agreed-upon procedures engagements. It is unclear as to whether other non-assurance services are contemplated, what they might be, and how they would fit into the undefined framework of ISRSs. Accordingly, the structure of the technical pronouncements is incomplete. We strongly recommend that the IAASB complete the structure of the technical pronouncements before attempting to describe the structure in definitive terms in the Preface. | Y | The phrase "other non-assurance" services has been changed to "other related services engagements" as recommended by comment no. 38 below in order to exclude consulting services.

The set-up for ISRSs however appears appropriate in the Preface in order to establish a structure for such pronouncements. Establishment of parameters and definitions for Standards on such services would be developed following due process, similar to the establishment of the Assurance Framework. |
| 38 | CPA
Australia | The wording of paragraph 10 needs refinement. It says "International Standards on Related Services (ISRSs) are to be applied to compilation engagements, engagements to apply agreed upon procedures to information, and other non-assurance services." A consulting engagement, for example, is a "non-assurance service", but surely ISRSs are not intended to apply to a consulting engagement. | Y | Agreed. The last part of paragraph 10 has been changed from "and other non-assurance services" to "and other related services engagements". |
| 39 | FEE | Pursuant to paragraph 10 of the proposed Preface, International Standards on Related Services (ISRSs) are to be applied in compilation engagements, engagements to apply agreed upon procedures to information, and other non-assurance services. Since we do not assume that the IAASB wants to apply ISRSs to all non-assurance services (i.e. not to all other kinds of services, such as consulting), we suggest that the last part of paragraph 10 should read: "and other related services". | Y | Agreed. See response to comment no. 38. |

Paragraph
12

40	PwC	<p>Paragraphs 8-10 describe the scope of IAASB's various technical pronouncements by defining the engagements to which the standards apply. On the other hand, paragraph 12 defines who must apply the Quality Control Standards. We suggest amending the sentence as follows to be consistent with the style in the earlier paragraphs:</p> <p>International Standards on Quality Control (ISQCs) are to be applied for all services falling under the IAASB's Engagement Standards.</p>	Y	Agreed. Changed as suggested.
		Paragraph 13		
40(a)	FAR	We have noted that the materiality concept has been excluded from the Preface without any specific comments. What is the rationale behind that?	N	Refer to Agenda Item 6-A, paragraphs 18.
41	FEE	Paragraph 10 of Operations Policy No1 refers to the materiality principle when commenting on bold paragraphs and the use of the word "should". FEE supports the change whereby materiality is not dealt with in paragraph 13 of the Preface.	N	Noted.
42	KPMG	The last sentence is redundant because it essentially repeats the substance of the first part of the paragraph. We recommend that IAASB delete the last sentence of Paragraph 13.	Y	Agreed. Change made as suggested.
43	PAAB	In paragraph 13 we suggest that the last sentence be deleted. As presently worded "This includes ..." will otherwise be read to mean that essential procedures are contained in the explanatory and other material contained in the Standard. (This sentence also appears at the end of paragraph 5 in Operations Policy No 1).	Y	Agreed. See response to comment no. 42.
		We note that the statement, "ISAs need only be applied to material matters", which is presently contained in the Preface has been deleted from the proposed revised Preface. We note that the issue of materiality is however discussed in paragraph 10 of Operations Policy No 1 and hence we would suggest that this statement be reinstated in the Preface.	N	See response to comment no. 40(a).
44	UK APB	The APB considers that the final sentence commencing "This includes the explanatory...." is unnecessary, as it repeats the substance of the rest of the paragraph, and should be deleted.	Y	Agreed. See response to comment no. 42.
		Paragraph 14		
45	ACCA	The section dealing with 'Authority Attaching to Standards' refers to the exercise of professional judgment in their application. There is, however, no discussion of relevance or materiality in this context. Operations Policy No. 1 - Bold Type Lettering refers to such matters in a discussion of 'should statements' (paragraphs 8 to 10) but implies (though using the words 'of course') that relevance and materiality are well understood. Currently, each International Standard on Auditing (ISA) is preceded by a statement (displayed with other text in a box - but not otherwise given specific authority) that 'ISAs need only be applied to material matters.' We believe that the Preface should make explicit reference both to materiality and to relevance.	N	See response to comment no. 40(a).
46	AICPA	Paragraph 14 states that a professional accountant may judge it necessary to depart from a	Y	Agreed. See response to comment no. 9.

requirement of an engagement standard to achieve more effectively the objective of the engagement, and that when such a situation arises, the professional accountant should be prepared to justify the departure. It is not clear to us how or why a professional accountant who is not in public practice would have to justify a departure from a requirement in an engagement standard, unless he or she has asserted compliance with the requirement.

47	AuASB	<p>In the Australia there is a professional requirement under Miscellaneous Professional Statement APS 1.1 "Conformity with Auditing Standards" (paragraph 5) that:</p> <p>"...In rare and exceptional circumstances, a departure from a basic principle or essential procedure may be necessary to effectively fulfill the objective of an audit or audit related service in the context of the specific circumstances of the engagement. In such a case, the auditor is to explain the departure in the auditor's report."</p> <p>Accordingly, in the interests of ensuring that such departures from International Standards, are properly communicated to readers of audit (and other assurance) reports, it is recommended that the wording in paragraph 14 be amended to require a written explanation of such departures, and this should, preferably be required to be included in the auditor's report:</p> <p>We therefore suggest that paragraph 14 be amended to read as follows:</p> <p>"The nature of Standards issued by the IAASB requires professional accountants to exercise professional judgment in applying them. In extremely rare circumstances, a professional accountant may judge it necessary to depart from a requirement of an Engagement Standard to achieve more effectively the objective of the engagement. When such a situation arises, the professional accountant should justify the departure in the professional accountant's audit (or other assurance) report."</p>	N	<p>Documentation and reporting standards when there is a departure from Engagements Standards is outside the scope of the Preface. Comments on the issue of whether and, if so, how the auditor should document and report a departure will be provided to the IAASB Documentation and Reporting Task Forces for their consideration.</p>
48	Basel	<p>Paragraph 14 includes an override for the auditor. "In extremely rare circumstances, a professional accountant may judge it necessary to depart from a requirement of an Engagement Standard to achieve more effectively the objective of the engagement".</p> <p>An override may be necessary. We hesitate however for the suggested prerequisite, namely "effectively"? This could unnecessarily open up for deviations from the standards. We suggest that the IAASB consider a more restrictive approach, such as the use of reliable or faithful as the prerequisite. Furthermore, it may be necessary to consider a disclosure requirement when the override has been used.</p>	N	<p>Staff believes that the term "effective" is the appropriate term and should not unnecessarily create more deviations from the standards. Alternative terms "faithfully" or "reliable" are considered ambiguous in this context and therefore are not recommended.</p> <p>The issue of reporting upon departures from Engagements Standards is outside the scope of the Preface. Comments on the issue of whether and, if so, how the auditor should report when a departure from an Engagement Standard was judged to be necessary will be provided to the IAASB Reporting Task Force for their consideration.</p>
49	CPA Australia	<p>Paragraph 14 of the Preface and paragraph 6 of Operations Policy No.1 – Bold Type Lettering, allows a professional accountant to depart from a requirement of an Engagement Standard whenever that professional accountant judges it to be necessary to achieve more effectively the objective of the engagement. Such a departure is not required to be disclosed in any way, or even recorded in the working papers. Nor is the professional accountant required to consult with anyone before choosing to depart. We strongly believe that this allowance is not in the public interest, is too liberal, offers potential for abuse, and undermines the authority of the Engagement Standards.</p>	N	<p>See response to comment no. 47.</p>

In principle, if there are circumstances in which a professional accountant may need to depart from an essential or basic principle in a Standard, then that fact should be acknowledged in the Standard. The standard would need to be worded in such a way that when those circumstances occur and the general rule is not followed, it is not considered to be a departure.

This particular issue has been considered in Australia a number of times, and no-one has yet identified an instance when a departure would be appropriate. However, on the basis that some extremely remote unforeseen circumstance may arise in which a departure is justified, the minimum that could reasonably be expected is that the reader of the professional accountant's report be informed of that circumstance. Therefore, we strongly recommend that if any discretion to depart from an Engagement Standard is allowed for in the Preface, then the professional accountant should be required to fully disclose the details of that departure in their report, including the reason(s) for the departure(s).

50	CPA Australia	We believe that the Preface should not use the word "requirement(s)", which is open to differing interpretations. For example, where paragraph 14 of the Preface says "requirement", it should be replaced by "basic principles and essential procedures".	Y	Agreed. The term "requirements" have been replaced by "basic principles and essential procedures" in paragraph 14 and 19..
51	FEE	Paragraph 14 of the Preface sets forth that only in extremely rare circumstances may a professional accountant judge it necessary to depart from a requirement of an Engagement Standard to achieve more effectively the objective of the engagement. When such a situation arises, the professional accountant should be prepared to justify the departure. Given the rapid change in auditing standards and the fact that it would be difficult to determine whether such circumstances would be extremely rare rather than just exceptional, we believe that the previous wording of "in exceptional circumstances" is more appropriate. Furthermore, the auditor should be required to document his decision.	Y	Agreed. The phrase "extremely rare" has been replaced by "in exceptional circumstances". With regard to documentation, see response to comment no. 47.
52	PAAB	The second sentence of paragraph 14 states "In extremely rare circumstances ..." we suggest that this be changed to read "In exceptional circumstances ..." which is consistent with the terminology used elsewhere in IAASB pronouncements.	Y	Agreed. See response to comment no. 51.
53	PAAB	The term "requirement" in relation to a Standard is used in paragraphs 14 and 19 we would suggest that this be changed to refer to "the basic principles and essential procedures" contained in the Standard in order to avoid any confusion.	Y	Agreed. See response to comment no. 50.
54	PwC	This paragraph addresses the possibility of the need to override a "requirement" of a Standard in rare circumstances. In paragraph 13, the Preface explains that IAASB's Standards contain "basic principles and essential procedures together with related guidance". It is not clear what a "requirement" is in this context, although we suspect that it is intended to refer to a basic principles or essential procedures. To avoid confusion or misinterpretation, consistent terminology should be used. Further, the International Standard on Quality Control (ISQC) being developed also envisages the possibility of the need to override a requirement of that Standard. However, the ISQC is not considered an Engagement Standard and therefore is currently not contemplated in this discussion. We suggest amending this paragraph accordingly.	Y N	Agreed. The term "requirements" have been replaced by "basic principles and essential procedures" in paragraph 14 and 19. Paragraph 4 of the proposed ISQC 1 states "the requirements of this ISQC apply to all firms; however it is likely that firms will develop differing policies and procedures to satisfy these requirements." This statement does not appear to envisage the override of a requirement of that Standard, but rather to permit the flexibility in the design of

55	UK APB	<p>Paragraph 14 of the Preface states that professional accountants need to justify any departures from requirements of Engagement Standards, but does not require this justification to be documented. APB believes that, in the interests of transparency, auditors should document the reasons for any departures from ISAs and, furthermore, they may need to disclose this in their report.</p> <p>APB recommends that the ISA 700 task force should be requested to consider the implications of a failure to comply with all ISAs on the auditor's report.</p>	N	<p>specific policies and procedures.</p> <p>See response to comment no. 47.</p>
Paragraph 16				
56	CPA Australia	Paragraph 16 of the Preface allows for a Public Sector Perspective (PSP) to vary the application of a Standard in the public sector. We can see no reason in principle why public sector issues are not dealt with in Engagement Standards themselves such that all Engagement Standards are fully applicable in both the public and private sectors. This is currently the case in Australia (and certain other jurisdictions, e.g. Canada), where minimal change is needed to accommodate the public sector.	Y	Refer to Agenda Item 6-A, paragraphs 20.
57	DTT	This paragraph discusses the applicability of the Standards to engagements in the public sector environment. Perhaps we should also consider including a statement regarding the applicability of the Standards to small entities.	N	IAASB's Standards are expected to be applied to all audits irrespective of size. The IAASB agreed at its September 2002 meeting that guidance with respect to their application for audits of smaller entities, as applicable, would be addressed in grey letter guidance. Accordingly, there does not appear to be justification to address the applicability of the Standards to small entities explicitly in the Preface. No change has been made.
58	DTT	Paragraph 16: After the phrase, "When no PSP is added, the Standard is to be applied," add "as written."	Y	Agreed. Change made as suggested.

Paragraphs 17 – 19 – The Authority Attaching to Practice Statements Issued by the International Auditing and Assurance Standards Board

Paragraph 17				
59	AICPA	<p>Paragraph 19 describes the authority of Practice Statements. As previously mentioned, we believe that practice statements should be a source of interpretive guidance on the standards, and recommend that paragraphs 17 and 18 be amended, accordingly. An appropriate definition is as follows: "Interpretative publications are recommendations on the application of the ISAs and ISAEs in specific circumstances, including engagements for entities in specialized industries."</p> <p>(Please refer to comment no. in Agenda Item xx for the comments made on IAASB's Terms of Reference):</p>	Y	Agreed. A new paragraph has been added which states: "Practices Statements do not establish any new basic principles or essential procedures".

60	AuASB	<p>The wording in paragraphs 17 and 18 of the Preface state that International Assurance Engagement Practice Statements (IAEPS) and International Auditing Practices Statements (IAPS): "... are issued to provide practical assistance to professional accountants...."</p> <p>It is suggested that the wording in these paragraphs be revised to clarify the nature of practical assistance. Suggested wording could be for example: "are issued to provide practical assistance to professional accountants and in certain circumstances, to provide additional guidance on the application of existing Standards...."</p>		See response to comment no. 61.
61	CICA	We believe that the Preface should indicate, when discussing the authority attaching to Practice Statements, that the IAASB will issue a Practice Statement in situations not specifically addressed in existing Standards. In addition, we believe that Practice Statements do more than provide implementation guidance for standards. We believe that Practice Statements also provide guidance on interpreting Standards.	Y	Agreed. The description of the authority attaching to the various Practice Statements issued by the IAASB have amended to state they also provide interpretive guidance, as suggested. A separate paragraph has been added to the Preface which states "Practice Statements do not establish any new basic principles or essential procedures" to better clarify their authority.
62	KPMG	Paragraphs 17 and 18, Authority Attaching to Practice Statements – It is important for both these paragraphs to state that Practice Statements (irrespective of whether they relate to assurance or auditing engagements) do not establish any new basic principles or essential procedures. Their purpose is to provide guidance on the application of ISAs.	Y	Agreed. See response to comment no. 61.
63	PAAB	We suggest that it should be made clear that Practice Statements do not establish any new basic principles and essential procedures but only serve to provide further or additional guidance on the application of Standards in the context of specific circumstances.		Agreed. See response to comment no. 61.
		Paragraph 18		
64	JICPA	<p>Practice statements for assurance engagements and audits are clarified in paragraphs 17 and 18. Practice statements for related services (International Standards on Related Services, "ISRSs") and quality control (International Standards on Quality Control, "ISQCs") are not explained anywhere in the exposure draft.</p> <p>In considering the diagram in the Appendix which describes practice statements for related services (International Related Services Practice Statements, "IRSPSs"), and the future possibility of developing practice statements for ISRSs and ISQCs, we suggest that descriptions of the practice statements for ISRSs and ISQCs should be added after paragraph 18.</p>	Y	Agreed. A description of IPSRSs has been added. The proposed structure of the Handbook however does not suggest that Practice Statements related to quality control standards are expected to be issued. Accordingly, no change has been made in this regard.
		Paragraph 19		
65	CICA	As we understand it, the IAASB may issue Practice Statements more quickly than it issues Standards and the due process for Practice Statements may be less than for Standards. This is justified because Practice Statements do not have the same authority as Standards. However, the Preface should more clearly articulate the difference in due process as between Standards and	N	Presently, the IAASB follows a similar due process for Practice Statements as it does for Standards.

Practice Statements.

66	CNCC	<p>In paragraph 19, the authority attached to the practice statement is reinforced by saying that "a professional accountant who does not apply the guidance included in an applicable practice statement should be prepared to explain how the requirements in the Standards addressed by the practice statement have been complied with". The two French Institutes do not favour the reinforcement of the authority attached to the Practice statements.</p> <p>Practice statements are, as mentioned in paragraph 18, issued to provide practical assistance to professional accountants in implementing ISAs. If a practice statement is necessary to understand an ISA, it means that the ISA itself is not clear enough and should be amended.</p> <p>Therefore, if a professional accountant implemented an ISA, without applying the guidance in the practice statement, simply because he did not need this guidance, he should not be obliged to explain why he did not apply or even refer to the guidance contained in the statement.</p> <p>In a context where the ISAs are becoming more and more detailed, less principle based and more « rules based », the two French Institutes consider that it is not necessary to reinforce the authority of the practice statements. They would therefore prefer that the previous wording of the preface be used: « These statements are not intended to have the authority of standards ».</p>	N	<p>The intention of the proposed paragraph is to strengthen the authority of Practice Statements as interpretive and implementation guidance in promoting good practice as applicable to the specific situation or circumstances to which the Practice Statement addresses. If a Practice Statement is not applicable to the circumstances, then the public accountant need not consider and apply such guidance. This appears clear in the proposed paragraph.</p>
67	DTT	<p>Since this paragraph states that auditors who do not apply the guidance included in applicable Practice Statements should be prepared to explain how the requirements in the Standards addressed by the Practice Statement have been complied with, we strongly recommend that Practice Statements be issued with effective dates, which will provide for an implementation period.</p>	Y	<p>This matter was briefly discussed by the IAASB at its March 2003 meeting in relation to IAPS on Compliance with IFRSs. It was agreed that, subject to further debate, the practice of designating an "issuance date" to provide for necessary translation and communication of the content of a final Practice Statement would be adopted.</p> <p>It is proposed that paragraph 22 of the Preface be amended to state that Practice Statements will be effective 60 days after the end of the month they are approved by the IAASB, being the date assumed that a physical mailing would have reached its intended audience and other interested parties.</p>
68	DTT	<p>Paragraph 19: Capitalize the "p" and "s" in the term "practice statement" in 3 places.</p>	Y	<p>Agreed. Changed as suggested, with conforming amendments to paragraphs 24 and 21 and to the title preceding paragraph 21.</p>
69	FEE	<p>Paragraph 19 discusses the authority attaching to practice statements. We have three questions on this issue:</p> <ul style="list-style-type: none"> • Grey text constitutes explanatory and other material providing guidance for the application of basic principles and essential procedures identified in bold type and the bold and grey text need to be read together. Considering paragraph 19 of the Preface but also paragraphs 11 to 13 of Operations Policy No1, is there a difference between the status of a practice statement and the grey text in a standard? Further clarification would be helpful. • Depending on the answer given to the first question, we would like the IAASB to consider whether the overall requirement resulting from the combination of the above mentioned 	N	<p>The "grey text" of a Standard forms a component of the entire Standard, the authority of which is described in paragraph 8 of the Preface. Practices Statements in their entirety has a different level of authority, as described in paragraph 17-19 of the Preface.</p> <p>This matter has been brought forward for IAASB consideration. Refer to Agenda Item 6-A, paragraph 21.</p>

paragraphs would not make standards too onerous in the context of litigation.

- There appears to be a substantial difference between IAPSS that "provide practical assistance" as mentioned in paragraph 18 of the Preface and IAPSS that auditors should then "be aware of and consider" which is the wording in paragraph 19. We question whether this strengthening is appropriate.

70	PAAB	We suggest rewording the second sentence of paragraph 19 as follows "A professional accountant who does not consider and apply the guidance included in an applicable practice statement should be prepared to explain how the basic principles and essential procedures in the Engagement Standards have been complied with."	Y	Agreed. Changed as suggested.
71	UK APB	The Terms of Reference state that Practice Statements "provide practical assistances (Sic) in implementing its standards and to promote good practice". The wording in the Preface is much stronger- paragraph 19 requires professional accountants 'to be aware of and consider practice statements applicable to the engagement'. We believe that the references to the status of Practice Statements in the two documents should be conformed, and prefer the wording in the Terms of Reference.	Y	See response to comment no.66.

Paragraphs 20 – Discussion Papers

Paragraph 20

72	PAAB	We suggest changing the heading to paragraph 20 from "Discussion Papers" to "Authority Attaching to Other Pronouncements Issued by the IAASB" as this will give the IAASB flexibility to issue any other types of documents it may later produce besides discussion papers. This change will then also ensure consistency with the heading to paragraph 23. If the heading to paragraph 20 is changed, as suggested above, we suggest rewording paragraph 20 to read "Other pronouncements, for example, discussion papers are issued..." Paragraph 20 states that discussion papers are issued on auditing and assurance issues. We suggest expanding this to cover related services and quality control for which the IAASB also issues pronouncements.	Y	Agreed. Changes made as suggested.
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Paragraphs 21-22 – Working Procedures – Standards and Statements

Paragraph 21

73	ACCA	Paragraph 21 refers to the Consultative Advisory Group. Information on the representative nature of the Group should be given in a footnote.	Y	Agreed. Footnote describing the IAASB's CAG has been added.
74	AICPA	As a technique to facilitate convergence of the auditing standards around the world, the IAASB has been participating in an increasing number of joint task forces with national standards setters. We recommend that paragraph 21 be expanded to discuss the mechanism of joint task forces with	Y	Agreed. Changes to this effect have been made in the introduction section of the Preface (new paragraph 3a) and within paragraph 21.

		member bodies and others.		
75	CPA Australia	<p>There is some inconsistency in the Exposure Draft regarding:</p> <ul style="list-style-type: none"> the inclusion of related service engagements and ISRSs, and audit as a subset of assurance engagements. <p>For example paragraph 21 says "... organizations that have an interest in auditing and assurance standards...", we believe the term assurance standards automatically includes auditing standards. Furthermore, standards and statements also apply to related services. We recommend that paragraph 21 should read, "organizations that have an interest in standards applicable to assurance and related services engagements".</p>	Y	Agreed. Changes to this effect has been made.
76	DTT	Paragraph 21: After the phrase, "The task force prepares an exposure draft for the IAASB to review and debate," add " during deliberations in meetings open to the public."	Y	Agreed. Changed as suggested.
77	JICPA	<p>The role of IAASB includes not only auditing and assurance standards but also related services and quality control standards as defined in paragraph 2:</p> <p>"In pursuing this mission, the IFAC Board has established the IAASB to develop and issue, on its behalf, standards and statements on auditing, assurance and related services, and quality control standards for use around the world." (Underline added)</p> <p>Related services and quality control standards are scoped out in the following sentence of paragraph 21:</p> <p>"When approved, the exposure draft is placed on the IAASB's web site and is widely distributed for comment by member bodies of IFAC, organizations that have an interest in auditing and assurance standards and the general public." (Underline added)</p> <p>We suggest the following wordings in paragraph 21 related to the above sentence:</p> <p>"When approved, the exposure draft is placed on the IAASB's web site and is widely distributed for comment by member bodies of IFAC, organizations that have an interest in auditing, assurance, related services, and quality control standards and statements, and the general public."</p>	Y	Agreed. Changes to this effect have been made.
78	KPMG	<p>Paragraph 21 – It is inconsistent to state that after approval of a project proposal, the IAASB's working procedure is to select subjects for detailed study by a task force. We recommend that the third, fourth and fifth sentences of paragraph 21 be amended as follows:</p> <p>After approval, the IAASB's working procedure is to appoint a task force with the responsibility for confirming the scope of the project, carrying out initial study and research and preparing and drafting Standards and Statements. The task force will ordinarily be chaired by a member of the IAASB and may contain members who are not members of the IAASB.</p>	Y	Agreed. Changes to this effect have been made.
79	KPMG	Paragraph 21 states that input is sought, where practicable, from the "Consultative Advisory Group" but the paragraph does not explain what this group is and how it relates to the IAASB. We recommend that the document include a footnote that explains the Group.	Y	Agreed. A footnote describing the IAASB's CAG has been added.

80	KPMG	<p>The last sentence of paragraph 21 dealing with exposure of Practice Statements seems to contradict the first part of this paragraph. We recommend that it be clarified by revising the seventh, eighth and final sentences of paragraph 21 as follows:</p> <p>...The task force prepares a draft for the IAASB to review and debate. The Board exposes draft standards for public comment. It also ordinarily exposes draft Practice Statements for comment unless it decides that there are particular circumstances justifying non-exposure. When approved, an exposure draft is placed on the IAASB's website and is ...the exposure period will ordinarily be no shorter than 90 days.</p>	Y	Agreed. Changed substantially as suggested.
81	PAAB	<p>We believe that the comment period should never be less 90 days and accordingly suggest that the word "ordinarily" be deleted. A 90 day comment period will allow member bodies to follow due process in their own jurisdictions and will allow all member bodies equal opportunity to comment.</p>	N	<p>The wording "the exposure period will ordinarily be no shorter than 90 days" has been used to permit the IAASB the necessary flexibility in issuing Standards with a shorter-than-90 day exposure period as considered necessary, such as in circumstances where the IAASB needs to be very responsive.</p>
82	PwC	<p>We suggest the following amendments to the proposed wording to better reflect IAASB's working practices:</p> <p>After approval, the IAASB's working procedure is to assign responsibility for the project to a task force established for that purpose.</p> <p>The task force develops its positions based on appropriate research and consultation, which may include, depending on the circumstances: commissioning research, consulting with practitioners....</p> <p>Some have questioned whether IAASB's policy of setting exposure periods no shorter than 90 days is appropriate given the expectations of regulators and others for standard setting bodies to be responsive. We appreciate that sufficient time is necessary to allow for translation, when necessary, and adequate consultation with key stakeholders, but question whether the Preface should embed a definitive time frame.</p>	Y N	<p>Agreed. Editorial changes made as suggested.</p> <p>With respect to defining an ordinary exposure period, it is considered appropriate to communicate to stakeholders a normal operating practice so that an expectation of how IAASB will operate is established.</p>
83	UK APB	<p>... the APB is concerned by the last sentence of paragraph 21 of the Preface, to the effect that drafts of Practice Statements may not in all cases be exposed for comment before they are issued in final form. If professional accountants are to be required to be aware of and consider these statements then it is very important that they are only issued after due process, and a proper consideration of the appropriateness and practicality of the proposed guidance before it becomes effective.</p>	Y	<p>The proposed sentence in paragraph 21 is intended to increase the IAASB's responsiveness in issuing guidance on urgent matters. As stated, this will only be accomplished after due consideration by the IAASB of the surrounding circumstances.</p> <p>The proposed change to establish a defined issuance date to permit necessary time to understand and implement a Practice Statement may serve to reduce the concerns expressed.</p>
	Paragraph 22			
84	ACCA	<p>Paragraph 22 states that Practice Statements will be effective from the date they are issued. While it is true that such statements introduce no new requirements, we nevertheless believe that an appropriate commencement date should be given. As paragraph 19 states, 'professional</p>	Y	Agreed. See response to comment no. 67.

accountants should be aware of and consider practice statements applicable to the engagement'. To require instantaneous awareness and consideration is not appropriate.

85	FEE	Paragraph 22 indicates that practice statements will be effective from the date they are issued. This proposal raises problems especially when considering that the IAASB considers in paragraph 21 that there can be circumstances justifying non-exposure of an IAPS.	Y	Agreed. See response to comment no. 67.
86	FEE	Paragraph 22 of the Preface states that where changes made after exposure are substantial, the IAASB will consider the need for re-exposure. In our view, it is equally important for reasons of transparency for the IAASB to explain changes made after exposure and also to explain why it has not made changes requested by a significant number of commentators.	N	<p>The IAASB posts an analysis of all public comments received on an ED, a summary of significant concerns raised by respondents, and the proposed disposition by the relevant Task Force. Decisions made by the IAASB on the proposed disposition are recorded in the minutes to the meeting, which too are made available to the public. This process offers full transparency of the changes made after exposure and an explanation how comments have been treated.</p> <p>Addition reforms are presently being considered to strengthen transparency, but no change has been made to the Preface.</p>
87	PwC	If changes after exposure are substantial, particularly if there have been fundamental changes to proposed key principles and essential procedures, there may be an expectation that IAASB will engage in further consultation before approving the final pronouncement. For that reason, we question whether requiring IAASB to "consider the need for reexposure" is sufficient, or whether IAASB should be asked to vote on whether reexposure is necessary in order to introduce the discipline of consciously weighing the merits and documenting the Board's decision in this regard.	Y	Agreed. Sentence changed to state: "If the changes made after exposure are considered by the IAASB to be substantial, the IAASB will vote on whether re-expose for comment is necessary".
88	PwC	<p>In addition, we believe that the Preface would be improved if it included the following matters:</p> <p>- Paragraph 22 states that IAASB will set an effective date for the application of its Standards and that Practice Statements will be effective from the date they are issued. There are a large number of existing ISAs, however, that were issued before this practice came into effect and, therefore, do not indicate an effective date. It would be useful for the Preface to address this situation and indicate when a Standard should be considered to have become effective if no effective date is indicated (for example, the date of release of the re-codification). An alternative would be to add an effective date to existing ISAs, perhaps by referring to the date at which the ISA was originally approved.</p>	N	Staff believes the suggestion has merit, however it may create confusion to address this matter in the Preface. Staff will consider how ISAs existing before this Preface and to which has no stated effective date can be amended in the revision of the IAASB Handbook planned for later this year.
89	PwC	As IAASB's Engagement and Quality Control Standards are revised, and conforming amendments made to them when new Standards are released, it would be useful to define IAASB's policy on, at a minimum, providing a chronological record of superseded bold lettered basic principles and essential procedures and indicating within a Standard what has been revised and when those revisions came into effect.	N	<p>Currently, a description of the changes to the Handbook are included in the covering page to each revision of the Handbook. It is not considered necessary however to provide details of the administrative process in the Preface.</p> <p>Staff is presently re-considering how the archiving and recording of changes to the IAASB Handbook should be administered, as well as the process for archive records of ED comments and meeting agendas.</p>
90	UK APB	The APB considers that all Practice Statements issued by the IAASB should have effective dates,	Y	Agreed. See response to comment no. 67.

contrary to what is stated in paragraph 22 of the Preface. The notion that they be effective as soon as they are issued is unrealistic and does not assist their considered implementation by auditors and appropriate training being provided.

Paragraphs 23 – Working Procedures - Other Pronouncements

Paragraph 23				
91	ACCA	Paragraph 20 deals with discussion papers and is headed accordingly. Paragraph 23 is headed 'Other Pronouncements' but its text refers only to discussion papers. 'Other papers', but not discussion papers, are mentioned in the Terms of Reference. Apart from the obvious lack of consistency, it is not clear whether IAASB intends to issue papers other than Standards and guidance only in the form of 'discussion papers'. We suggest that IAASB should not restrict its output but should allow for the production of other material as appropriate. In doing so, it may be worth making the distinction between formal outputs, which require an appropriate majority vote, and informal outputs (such as Meeting Summaries). The Preface itself will presumably be subject to formal approval but does not fit into a scheme involving only Standards, guidance and discussion papers.	Y	The caption to paragraph 20 has been changed from "Discussion Papers" to "Authority Attaching to Other Pronouncements Issued by the IAASB". Amendments have been made to establish Discussion Papers as an example of the type of non-authoritative document that may be issued by the IAASB.
92	AICPA	The last sentence of paragraph 23 calls for IAASB to "approve" discussion papers. This is a time-consuming process for non-authoritative documents. We recommend that the IAASB adopt a process for the publication of discussion papers similar to the process for the issuance of interpretative publications described in the previous paragraph of this letter.		Paragraph 25 of the Preface states that the approval of discussion papers requires only a simple majority of those members so present. It is believed that such a mechanism is effective and that a negative clearance mechanism is less transparent than that suggested. Accordingly, the wording is retained. This is comparable to the voting mechanism adopted by the IASB.
93	DTT	Regarding Preface paragraphs 23 and 24: We do not believe that Discussion Papers, which are not authoritative guidance, need to go through the same formal approval process as Standards and Statements, as there are more important items on the IAASB agenda for the members to spend time debating. Accordingly, we recommend that Discussion Papers be approved via a "negative clearance" mechanism where the documents are distributed to the IAASB members and then issued if no comments of substance are raised (i.e., without formal approval or voting).		Agreed See response to comment no. 92.
94	Grant Thornton	Paragraph 23 describes the method by which discussion papers will be issued and added to the IAASB literature. The last sentence of this paragraph indicates that the entire Board will be involved in approving these documents. We do not believe this is necessary.		Agreed See response to comment no. 92.
95	KPMG	The numeral 4 should be replaced by the actual word.	Y	Agreed. Changed as suggested.
96	PAAB	If the heading to paragraph 20 is changed as suggested above, we suggest rewording paragraph 23 as follows "For other pronouncements, including discussion papers, ..."	Y	Agreed. See response to comment no. 72.

Paragraphs 24-25 – Working Procedures – Voting

Paragraph

24

97	AICPA	Paragraph 24 states that dissenting opinions will be included in the minutes of the meeting at the request of the dissenting member or members. We believe that members who dissent should be required to describe the reasons for their dissents in the minutes in brief but succinct terms. This is critical to transparency and for stakeholders to evaluate the efficacy of IAASB's activities over time.	Y	Agreed. The sentence has been redrafted to exclude the phrase " at the request of the dissenting member of members".
98	AICPA	<p>Paragraphs 24 and 25 allow for the casting of a vote by proxy. As previously stated, we do not believe that votes for issuance of exposure drafts or final pronouncements should be cast by proxy.</p> <p>(Comments made previously on IAASB's Terms of Reference: Carried forward for information purposes:</p> <p>The fifth paragraph refers to voting, but it does not first establish that the IAASB is made up of 18 members. We believe in an area of such importance, clear and complete articulation of relevant information for an understanding of IAASB's procedures is critical to stakeholders. Therefore, we recommend that the fifth paragraph state that the IAASB comprises eighteen members, each of whom has one vote, and that twelve affirmative votes are required to approve standards.</p> <p>We do not believe that votes to issue an exposure draft or final pronouncement should be cast by proxy. We believe that this is inconsistent with the concept that each member should vote his or her own conscience. An important objective of these rules is for each member to be a party to the deliberations and to actually to hear the various points of view expressed at the meeting and to express their own. To provide a proxy defeats the ability of the other members to influence the member's views during the deliberations leading up to a vote, and vice-versa.</p> <p>As a practical matter, when a member is temporarily absent, the member may provide an informal "proxy" to the Chair (directly or via a technical advisor) for taking positions on issues under discussion, but never to another IAASB member. A proxy should never be sufficient to approve an exposure draft of a proposed standard or statement or a final standard or statement.</p> <p>The subject of casting votes via proxy is brought up again in paragraphs 24 and 25 of the Preface. We recommend that these paragraphs be amended accordingly.)</p>	N	In May 2003, the IAASB agreed that the proposed Preface should be changed to indicate that the preference is that members should be present in person, then by way of telephone link and lastly, by way of proxy
99	Basel	Dissenting opinions will, according to the proposed Terms of Reference, not be included in the exposure drafts or pronouncements. However, our experience with the IASB is that the inclusion of dissenting opinions in the EDs is very helpful when the proposals are analysed. We suggest that dissenting opinions should be included in the EDs.	N	Preface paragraph 25 has been amended to require the recording of dissenting opinions. Minutes to the IAASB meetings are made publicly available and therefore are available to promote the debate of the issues by commentators. It is not recommended to include dissenting opinions within exposure drafts as this may place greater emphasis on these views without equal prominence of supporting opinions and the related arguments. Inclusion of both views would unduly lengthen the ED process and focus on the arguments put forth which may detract innovative or persuade commentators' views.
100	CICA	In meetings to approve an exposure draft Standard or Statement, there are often changes arising	N	To ensure views on significant matters affecting the approval

in the discussion before a vote in a meeting is taken. Members should have the opportunity to see the final approved wording in order to confirm their oral vote or to register their vote if they were not at the meeting in-person or by-telephone. The Preface should describe the process for voting on final wording. In this respect, the IAASB should consider adopting a ballot process similar to that used in Canada and the United States for this purpose.

process are expressed at the time of voting, IAASB members are requested to vote based on the document tabled at the meeting. Substantive changes, beyond minor editorial matters, affecting a document are ordinarily redrafted and presented to the IAASB at the same meeting. Significant changes arising out of IAASB discussions that cannot be processed during the meeting and for which confirmation by the IAASB is considered desirable results in the deferral of approval until the Board next reconvenes. The use of ballots is used in rare circumstances where this option is not feasible or preferable. This process is believed to best ensure transparency of the public debate. Accordingly, no change has been made.

101	FEE	The proposed new voting procedures set out in the Terms of Reference and paragraph 24 of the Preface provide that an affirmative vote of at least two-thirds of members present at a meeting in person or by proxy or by simultaneous telecommunications link, but not less than twelve, is required to approve a standard. While we understand the intention of this change, which is to accelerate the standard setting process of the IAASB, we advise that the existing three-quarters requirement be retained. It indicates broad acceptance within the IAASB that would be considered a positive signal for the general acceptance of an ISA and for its subsequent implementation in national auditing standards by national standard setters. We note that the IAPC Review Task Force Report supported a majority of three-quarters for similar reasons.	N	In May 2003, the IAASB agreed to retain the proposed minimum two-thirds approval threshold in light of the general acceptance by the majority of respondents.
102	KPMG	Paragraph 24 requires a vote to approve exposure drafts, standards and statements. It does not require a vote to determine whether re-exposure of a standard is necessary. Paragraph 22 states that "if the changes made after exposure are substantial, the IAASB will consider the need to re-expose the document for comment." The procedures do not discuss who decides whether a change is substantial and whether the document should be re-exposed. These are significant decisions that are often impacted by conflicting objectives (i.e., pressure to issue a document versus pressure to ensure changes appropriately address concerns raised.) We recommend that the Preface explicitly require the IAASB to vote on whether an exposure draft should be re-exposed.	Y	Agreed. The change is a conforming amendment based on the Staff disposition to comment no 73.
103	PAAB	Since the IAASB is presently seeking endorsement of International Standards on Auditing (ISAs) by both the International Organisation of Securities Commissions (IOSCO) and the European Union (EU) we believe the approval of standards should demonstrate their general acceptance. We do not believe that a two-thirds approval of standards will demonstrate that standards have general acceptance. Instead we continue to support the current requirement for standards to be approved by three-quarters of the members. We believe that a requirement for a three-quarters approval will give credibility to the standard setting process and will generate robust debate ensuring that minority views are taken account of. However, we suggest that the approval required for the issue of exposure drafts be only two-thirds of the members, as this will allow the IAASB to properly engage debate on the issues under consideration.	N	See response to comment no. 101.
104	PAAB	While we support not including dissenting opinions in final pronouncements we believe that the publication of dissenting opinions within exposure drafts would further promote debate of the	N	See response to comment no. 99

issues by commentators.

105	UK APB	The APB believes that the minutes of meetings should always contain details of dissenting opinions not just if dissenting members request this. We suggest the last 9 words of the sentence be deleted.	Y	Agreed. Change made as suggested.
	Paragraph 25			
106	AICPA	Paragraphs 24 and 25 allow for the casting of a vote by proxy. As previously stated, we do not believe that votes for issuance of exposure drafts or final pronouncements should be cast by proxy.	N	See response to comment no. 98.
107	Basel	[Extracted from comments on the proposed Terms of Reference] The proposal also includes the use of proxy. We do not think that this is consistent with the intended standing of IAASB. Considering the possibilities to use conference calls and telephone hook up, we suggest that the use of proxy should not be allowed.	N	See response to comment no. 98.
108	CICA	We believe that members benefit from hearing the discussion amongst the IAASB members before voting on exposure drafts, Standards or Statements. For this reason, we do not support the proxy voting process in the Preface. However, we recognize that given the geographical dispersion of IAASB members it may be difficult for all IAASB members to attend meetings. We believe that a written ballot process, as described in the following paragraph, would be appropriate for addressing this issue. However, in the event that the IAASB decides to implement a proxy process, we recommend that there be a limit to the number of proxies allowed to vote on exposure drafts, Standards or Statements (or alternatively there be a required minimum number of in-person or by-telephone IAASB members in attendance before a vote can be taken). This would avoid the undesirable situation of a vote being passed primarily because of proxy votes when a significant number of IAASB members are unable to attend an IAASB session.	N	See response to comment no. 98.
109	Grant Thornton	[Extracted from comments on the proposed Terms of Reference] ... we do not believe that a proxy vote should be allowed to approve the issuance of exposure drafts and standards. The approval of exposure drafts and standards carries a high degree of responsibility and members	N	See response to comment no. 98.
110	KPMG	We do not agree with paragraph 25 as currently written. We can understand that there may be a need to introduce the idea of a proxy in very limited circumstances, i.e., where a member has attended the meeting, participated in the discussion but for some unforeseen reason is unable to be present for the final vote on a document. However, we do not believe that a member should have a general unrestricted ability to appoint a proxy. We therefore recommend that this paragraph be re-written to restrict Board members' ability to appoint a proxy to limited circumstances that are clearly explained in the document.	N	See response to comment no. 98.
111	KPMG	Paragraph 25 also introduces the notion of a "technical adviser" without explaining what a technical adviser is and how he/she relates to the Board members. We recommend that the document include a footnote that provides an adequate explanation.	Y	Agreed. Change made as suggested.

Paragraphs 26 – Language

Paragraph 26				
112	AICPA	Paragraph 26 observes that approved text is published in the English language. The proper use of the English language is critically important to ensure that documents issued by the IAASB are understandable and reasonably likely of being applied uniformly despite the language to which they have been translated. If the subject is not clear in proper English, then the problem of understanding (or avoiding ambiguity) is far greater than mere word selections or protocols for use or non-use of words and phrases. We have observed that the IAASB's documents often contain ambiguous, unclear, or incorrect uses of the English language, which in our view is not appropriate for formal professional publications of this nature. The IAASB also must pay close attention to consistency in the manner in which its many documents are written. We recommend that IFAC hire a technical editor on staff and to subject all of its documents to careful editing.	N	Noted. Comment will be provided to the Revisions Committee for consideration as well as to all TF members and Staff.
113	FEE	It should be clarified in paragraph 26 of the Preface, that the English language version of any approved pronouncement is the sole authoritative version. There is a danger that translations of ISAs or other material originally approved by the IAASB will not completely reflect the exact meaning contained in the English original. Hence, any translation of an Exposure Draft, Standard or Statement should include a reference to the sole authoritative English version. That being said, FEE believes that the IAASB should encourage IFAC member bodies to translate its pronouncements, which is the only effective solution to ensure the widest application of IAASB standards.	Y	Agreed. Change made as suggested. The IAASB has identified assistance to, and improvement of, the translation process as an important action in its 2003-2004 Action Plan.