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## PROPOSED POLICY STATEMENT X<sup>1</sup>

### AUTHORITY OF, AND CONVENTIONS USED IN, INTERNATIONAL STANDARDS AND PRACTICE STATEMENTS ISSUED BY THE IAASB

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#### Introduction

1. This Policy Statement, in conjunction with the Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services, sets forth the authority of International Standards and Practices Statements and the conventions and terminology used therein by the IAASB in describing the professional requirements imposed on professional accountants. International Standards and Practice Statements, including related exposure drafts, issued or revised on or after [30 September 2004] follow the policies set out in this Policy Statement in the manner intended herein.
2. The IAASB and its predecessor, the International Auditing Practices Committee, did not follow these policies when drafting its pronouncements prior to [30 September 2004], and so the usage in those pronouncements may not be consistent with the meanings given in this Policy Statement. International Standards and Practice Statements issued before [30 September 2004] will be conformed as they are updated.

#### Background

3. The IAASB strives to issue clear, concise and definitive International Standards and Practice Statements. In 2003, the IAASB reviewed its drafting convention with the objective to improve the clarity, and thereby the consistent application, of International Standards and Practice Statements. Any change to the drafting convention followed by the IAASB was to adhere to the fundamental concept that the text of an International Standard carries a single authority, and that International Standards should contain principles that direct the conduct of an audit supported by clearly understandable requirements and explanatory guidance for their application.

<sup>1</sup> Once finalized, it is proposed that this Policy Statement becomes an addendum to the Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services.

## International Standards

### EQUAL AUTHORITY

4. The entire text of an International Standard has equal authority. Accordingly, professional accountants have a responsibility to consider the whole text of an International Standard in carrying out their work on an engagement. An International Standard communicates the requirements of the professional accountant by the language and the meaning of the words used in the International Standard and as described in this Policy Statement.

### PRINCIPLES

5. International Standards contain principles which embody the underlying objective(s) of a particular International Standard and which are underpinned by the procedural requirements included therein. The professional accountant uses professional judgment in achieving the principles of an International Standard and the application of related requirements.
6. Bold type lettering is used in International Standards to identify principles underlying an International Standard for purposes of aiding overall readability. Bold type lettering is not used in an International Standard for any other purpose.

### PROFESSIONAL REQUIREMENTS

7. International Standards adopt, conceptually, two categories of professional requirements, as follows:

**Unconditional requirements** – The professional accountant must accomplish requirements of this type in all cases in which the circumstances exist to which the requirement applies. International Standards specify unconditional requirements sparingly and in circumstances deemed to be truly unconditional.

**Presumptively mandatory requirements** – The professional accountant must comply with the requirements of this nature specified in an International Standard unless, in exceptional circumstances, the professional accountant judges that a departure from the requirement is necessary to more effectively achieve the principles contained in an International Standard or the objective of the engagement. When such a situation arises, the professional accountant should be prepared to justify the departure.<sup>2</sup>

8. Professional requirements are set out within the context of the principles contained in an International Standard. A professional accountant is responsible to comply with the professional requirements of those International Standards that are relevant to the engagement.

<sup>2</sup> As described in paragraph 12 that follows, presumptively mandatory requirements are identified by the use of the word “should.” International Standards issued before [30 September 2004] also used the word “should” to identify those procedures or actions for which professional accountants have a responsibility to comply (unless, in exceptional circumstances, the professional accountant judges that departure is necessary). Accordingly, requirements described as presumptively mandatory in this Policy Statement impose an equivalent level of responsibility as that intended by the IAASB through its use of bold type sentences (containing the word “should”) within International Standards issued before [30 September 2004].

## TERMINOLIGY USED TO DESCRIBE PROFESSIONAL REQUIREMENTS

9. The IAASB uses the following words to identify and describe the professional requirements of an International Standard.

***Unconditional Requirements***

10. The words “must,” “shall,” and “is required” indicate an unconditional requirement.
11. The IAASB’s use of any of these three words depends on the context and manner in which a sentence is written so that the specified requirement is expressed in a manner most appropriate to the circumstances.

***Presumptively Mandatory Requirements***

12. The word “should” indicates requirements that are presumptively mandatory.
13. If an International Standard provides that an action or procedure is one that the professional accountant “should consider,” the consideration of the action or procedure is presumptively mandatory, while the action or procedure is not.
14. “Should” is never qualified by use of “ordinarily”. “Should ordinarily” (in relation to the professional accountant) is not used because it introduces the ambiguity of allowing for unspecified conditions to override the obligation imposed.

## EXPLANATORY MATERIAL, INCLUDING OTHER IDENTIFIED PROCEDURES AND ACTIONS

15. International Standards contain explanatory material that is intended to provide further explanation and guidance. Such explanatory material is intended to be descriptive rather than imperative. That is, it provides an explanation why the professional accountant should consider or employ particular procedures, depending on the circumstances or to provide information for the professional accountant to consider in exercising professional judgment in performing the engagement.
16. Explanatory material may also identify and describe other procedures and actions relating to the activities of the professional accountant. While professional accountants have a professional responsibility to consider such procedures and actions by virtue of their responsibility to consider the whole text of an International Standard in carrying out their work on an engagement, such guidance is not intended to impose a direct responsibility for the professional accountant to perform the identified procedures or actions. That is, such matters require the professional accountant’s attention and understanding; how and whether the professional accountant implements these matters in the engagement will depend on the exercise of professional judgment in the circumstances.
17. Explanatory material included in International Standards that provides further explanation and guidance, or when for example describing the responsibilities of management or other third parties, is written in the present tense. Other procedure and actions that are intended to be form part of the explanatory material are modified by the words “may,” “might” or other similar terms and phrases.

## APPENDICES

18. Appendices are an integral part of an International Standard and carry the same authoritative weight as the body of the International Standard, since both are developed and approved following the same due process.

19. The purpose and intended use of an appendix are clearly explained in the body of the related International Standard or within the title and introduction of the appendix itself. The use of appendices may vary depending on the subject of the International Standard.
20. Appendices may contain explanatory material, including other procedures and actions which the professional accountant has an obligation to consider but not necessarily perform. Appendices do not contain principles, unconditional requirements or presumptively mandatory requirements that otherwise would be expected to be included in the body of an International Standard.

#### **PRACTICE STATEMENTS**

21. Practice Statements are issued to provide interpretive guidance and practical assistance to professional accountants in implementing an International Standard (or set of International Standards) in a particular set of circumstances, and to promote good practice.
22. The purpose of a particular Practice Statement, and any limitation on the applicability of the Practice Statement, is described in the body of the Practice Statement.
23. Practice Statements do not establish new principles, but otherwise carry the same authority as the International Standard(s) to which they relate. Practice Statements therefore may contain professional requirements, explanatory material and other procedures and actions and explanatory material. Accordingly, a professional accountant must comply with unconditional requirements included in a relevant Practice Statement, and those who do not comply with a presumptively mandatory requirement should be prepared to justify the departure.

#### **OTHER WORDS AND PHRASES**

24. Words and phrases, other than those specified above to denote professional requirements, are used in International Standards and Practice Statements based on the definition of the word provided in the *Glossary of Terms*, or based on their specifically intended meaning as described in the *Lexicon of Other Words and Phrases* included in Appendix I. Where a word or phrase is not otherwise defined therein, its use is based on its generally understood meaning.

#### **EFFECTIVE DATE**

25. This Policy Statement is applicable on a prospective basis and is effective for all new or revised International Standards and Practice Statements, including exposure drafts, issued on or after [30 September 2004].

## Appendix I

### Lexicon of Other Words and Phrases

The purpose of this appendix is to provide the definition and intended meaning of non-technical words and phrases used in International Standards and Practice Statements when that use is different from, or more precise than, the plain English meaning. It also includes words and phrases that are subject to varied usage in different countries.

#### “DETERMINE”

“Determine” is used only when a matter is at the discretion of the professional accountant (*e.g.*, the professional accountant determines which procedures to use).

#### “ENSURE”

“Ensure” is used only when virtual or absolute certainty is intended.

#### “EVALUATE” AND “ASSESS”

To either “assess” or “evaluate” a matter, requires the professional accountant to identify and analyze the relevant issues and form a conclusion.

“Assess” is used only in relation to risk. “Evaluate” is used in relation to a range of matters, including evidence, the results of procedures and the effectiveness of management response to a risk.

#### “INVESTIGATE”

“Investigate” is used only when follow up procedures are required to look more thoroughly into a matter.

#### “REVIEW” AND “TEST”

The word “review” is used:

- to describe a particular type of engagement (*e.g.*, a review engagement per ISA 910);
- in relation to quality control, where it means to oversee and critically appraise the quality or adequacy of another’s work; and
- at a procedural level, ordinarily in relation to the use of inquiry and analytical procedures.

“Test” means the application of detailed procedures to some or all items in a population. A “test” ordinarily involves the professional accountant in some form of confirmation, inspection, observation, recomputation or reperformance.

The use of the word “review” at the procedural level and “test” relate to the nature of procedures to be undertaken. They do not necessarily relate to the quality of the evidence obtained.

**“SUCH AS” AND “FOR EXAMPLE”**

The phrases “such as” and “for example” are used when a comprehensive list is not being provided.

**WORDS AND PHRASES NOT USED IN INTERNATIONAL STANDARDS**

There are a number of words and phrases that are specifically not used in International Standards and Practice Statements because they introduces unnecessary difficulties when translating into a number of languages and also because they may be used in different ways in the technical vernacular of English speaking countries. Such words and phrases include:

“APPRAISE

“PERUSE”

“ASCERTAIN”

“SCAN”

“EXAMINE”

“VERIFY”

“INSURE”

## PROPOSED AMENDMENTS

### PREFACE TO THE INTERNATIONAL STANDARDS ON QUALITY CONTROL, AUDITING, ASSURANCE AND RELATED SERVICES

*No amendment to existing paragraphs 2 through 14 and paragraphs 22 through 28 (except necessary renumbering) is being proposed. Accordingly, these paragraphs have not been reproduced here. The following marked text represents proposed amendments to the Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services.*

#### Introduction

1. This preface to the International Standards on Quality Control, Auditing, Assurance and Related Services (“International Standards” or “IAASB’s Standards”), along with the accompanying Policy Statement(s), is issued to facilitate understanding of the objectives and operating procedures of the International Auditing and Assurance Standards Board (IAASB) and the scope and authority of the pronouncements it issues, as set forth in the IAASB’s Interim Terms of Reference.

#### The Authority Attaching to International Standards Issued by the International Auditing and Assurance Standards Board

##### INTERNATIONAL STANDARDS ISSUED BEFORE [30 SEPTEMBER 2004]

15. The IAASB’s International Standards issued before [30 September 2004] contain basic principles and essential procedures (identified in bold type lettering) together with related guidance in the form of explanatory and other material, including appendices. The basic principles and essential procedures are to be understood and applied in the context of the explanatory and other material that provide guidance for their application. It is therefore necessary to consider the whole text of a Standard to understand and apply the basic principles and essential procedures.
16. The nature of the International Standards issued by the IAASB requires professional accountants to exercise professional judgment in applying them. In exceptional circumstances, a professional accountant may judge it necessary to depart from a basic principle or essential procedure 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.
17. Any limitation of the applicability of a specific International Standard is made clear in the standard.
18. In circumstances where specific International Standards or guidance contained in an International Standard are not applicable in a public sector environment, or when additional guidance is appropriate in such an environment, IFAC’s Public Sector



Committee so states in a Public Sector Perspective (PSP). When no PSP is added, the International Standard is to be applied as written to engagements in the public sector.

INTERNATIONAL STANDARDS ISSUED OR REVISED ON OR AFTER [30 SEPTEMBER 2004]

19. International Standards issued or revised on or after [30 September 2004] contain paragraphs in bold type and plain type, which have equal authority. Paragraphs in bold type identify principles underlying an International Standard for purposes of aiding overall readability. International Standards contain unconditional and presumptively mandatory professional requirements, along with explanatory material and other identified procedures and actions. The professional accountant's responsibility in relation to these matters, and how they are reflected in International Standards, is described in Policy Statement X accompanying this Preface.
20. International Standards are to be read and understood in their entirety.
21. Appendices to IAASB's Standards are an integral part of a Standard and carry the same authoritative weight as the body of the Standard.
22. The nature of the International Standards issued by the IAASB requires professional accountants to exercise professional judgment in applying them. In exceptional circumstances, a professional accountant may judge it necessary to depart from a presumptively mandatory requirement included in an International Standard in order to more effectively achieve the principles of the International Standard or the objective of the engagement. When such a situation arises, the professional accountant should be prepared to justify the departure.
23. Any limitation of the applicability of a specific International Standard is made clear in the standard.
24. In circumstances where specific International Standards or professional requirements contained in an International Standard are not applicable in a public sector environment, or when additional guidance is appropriate in such an environment, IFAC's Public Sector Committee so states in a Public Sector Perspective (PSP). When no PSP is added, the International Standard is to be applied as written to engagements in the public sector.

**The Authority Attaching to Practice Statements Issued by the International Auditing and Assurance Standards Board**

- 25~~19~~. International Auditing Practice Statements (IAPs) are issued to provide interpretive guidance and practical assistance to professional accountants in implementing ISAs and to promote good practice. International Assurance Engagement Practice Statements (IAEPSs) and International Related Services Practice Statements (IRSPs) are issued to serve the same purpose for implementation of ISAEs and ISRSs respectively.

PRACTICE STATEMENTS ISSUED BEFORE [30 SEPTEMBER 2004]

- 26~~20~~. Professional accountants should be aware of and consider Practice Statements applicable to the engagement. A professional accountant who does not consider and apply the guidance included in a relevant Practice Statement should be prepared to explain how the basic principles and essential procedures in the Engagement Standard(s) addressed by the Practice Statement have been complied with.

PRACTICE STATEMENTS ISSUED OR REVISED ON OR AFTER [30 SEPTEMBER 2004]

27. Practice Statements issued or revised on or after [30 September 2004] do not establish new principles, but otherwise carry the same authority as the International Standard(s) to which they relate. Practice Statements may contain professional requirements, explanatory material and other identified procedures and actions. Accordingly, a professional accountant must comply with unconditional requirements included in a relevant Practice Statement, and those who do not comply with a presumptively mandatory requirement should be prepared to justify the departure.

**Other Papers Published by the International Auditing and Assurance Standards Board**

28. Other papers, for example Discussion Papers, are published to promote discussion or debate on auditing, assurance and related services and quality control issues affecting the accounting profession, present findings, or describe matters of interest relating to auditing, assurance, related services and quality control issues affecting the accounting profession. They do not establish any professional requirements ~~basic principles or essential procedures to be followed~~ in audit, assurance or related services engagements.