

**Summary of Significant Issues and Conclusions of the Task Force**

The following summarizes significant issues raised by the IAASB in October, and provides an outline of conclusion of the Task Force. It is provided to assist the IAASB's review of the proposed Policy Statement included in Agenda Item 7-A. The issues and Task Force conclusion are set forth in the same order as the related matter appears in the proposed Policy Statement.

<b>Issue</b>	<b>Task Force Conclusion</b>
<b>IAASB STANDARDS</b>	
EQUAL AUTHORITY	
<p>Whether the phrase 'equal authority' is the most appropriate way of communicating that the whole of a standard is authoritative or of a 'single authority' (as all the words went through the same due process)?</p> <p>Whether there is a need to clarify that 'equal authority' does not mean 'equal obligation'?</p>	<p>The Task Force concluded that use of any less definitive statement of authority may:</p> <ul style="list-style-type: none"> <li>• inadvertently create potential for misunderstanding that the entire text of a standard applies; and</li> <li>• create a perceived incongruence with the statement of authority set forth by the IASB (which uses the phrase 'equal authority').</li> </ul> <p>Accordingly, the phrase 'equal authority' has been retained.</p> <p>The Task Force also concluded that it may create confusion by stating that a standard does not carry 'equal obligation'. Rather, clarity may best be achieved by stating that standards communicate professional requirements by the language and meaning of the words used (as described in the proposed categories of professional requirements below).</p>

PRINCIPLES AND PROCEDURES	
<p>How best to convey the fact that standards contain principles and procedures, and the manner in which they should be presented?</p>	<p>The Task Force concluded that clarity could be improved by separately identifying text that covers the underlying philosophical principles of each standard from the procedural main requirements for practitioners. This conclusion was premised on the view (also shared by members of the CAG) that there are principles within a standard, and that these principles are supported by procedures derived therefrom.</p> <p>The Task Force concluded that there is benefit in using bold type lettering to highlight principles of a standard to the extent that it helps readability and provides a structural “road-map” to a standard. To minimize confusion, bold type lettering would be used for this purpose only. This solution has two advantages:</p> <ul style="list-style-type: none"> <li>• it elevates the positioning of principles (thematic), which ultimately drive the auditor’s professional judgment in the achievement of the objectives of the engagement, within a standard; and</li> <li>• it provides for a means to distinguish principles from procedures (in addition to the establishment of categories of professional obligations and the use of specific terminology).</li> </ul> <p>From a drafting perspective, principles would most likely be written in the context of the requirements of an audit, rather than in the imperative. <b>(Please note:</b> It may ultimately be determined more preferential to draft principles in the context of auditor’s actions or responsibilities. This would be determined once experience is gained through practical application.)</p> <p>The Task Force also concluded that use of any adjective to modify the concept of principles (e.g., ‘fundamental principles’, ‘main principles’, etc.) creates the potential for misunderstanding and, therefore, should be avoided.</p>

CATEGORIES OF OBLIGATION AND SPECIFIC TERMINOLOGY	
<p>Whether the manner in which the PCAOB categorizes professional obligations, and then uses specific words to identify the related obligation, would be useful for drafting IAASB's standards and for translation purposes?</p>	<p>The Task Force concluded that IAASB's standards should adopt two categories of professional requirements – unconditional requirements (identified by the word “must,” “shall,” or “is required”) and presumptively mandatory requirements (identified by “should”). These categories are generally consistent with the related categories identified by the PCAOB.</p> <p>The Task Force concluded that explanatory material which provides guidance on other [possible] procedures and actions should not be characterized as a third-category of professional responsibility (in contrast to the proposal of the PCAOB). The Task Force believed that describing such explanatory material (i.e., other procedures and actions that a professional accountant might consider performing in the circumstance) was not consistent with the nature and intended use of explanatory material, and may inadvertently result in confusion over the responsibilities of the professional accountant. The Task Force concluded that a clear statement must be made that, although a professional accountant has a responsibility to read and consider such guidance, there is not an obligation to carry out (or document the consideration thereof) other procedures and actions that are specifically intended to act as guidance. This view was shared by members of the CAG.</p> <p>The Task Force concluded that use of the words “may,” “might” or other similar phrases should be used to identify those procedures that should be considered, but which are not necessarily intended to be carried out (these terms are consistent with the proposal of the PCAOB).</p>

DOCUMENTATION	
Whether the IAASB should consider PCAOB's proposed new contemporaneous documentation requirements for departures from a presumptively mandatory obligation ("should" imperatives) via "verifiable, objective and documented evidence"?	<p>In approving the revised Preface, the IAASB extensively debated the need to justify a departure from a standard in writing. It ultimately concluded that written justification was not a fundamental requirement (the decision was not unanimous).</p> <p>Accordingly, no new documentation requirements have been introduced, on the basis of the previous decision of the IAASB. The Task Force recommends that this issue be addressed when revising ISA 230, Audit Documentation.</p>
APPENDICES	
<p>What level of authority should attach to appendices?</p> <p>Whether, and if so the what extent, professional requirements should be included in appendices?</p> <p>Whether appendices should be used only for a certain prescribed purpose?</p>	<p>The Task Force concluded that appendices to IAASB's standards are an integral part of a standard and should carry the same authoritative weight as the body of the standard itself. This statement of authority is consistent with the view of the IAASB that appendices form part of a standard (re: Preface paragraph 15). It is also consistent with the statement introduced by the PCAOB for its appendices.</p> <p>The Task Force concluded that appendices may contain explanatory material, including other procedures for which the professional accountant has a responsibility to consider but not necessarily perform. Appendices should not however contain principles or unconditional or presumptively mandatory requirements that otherwise would be expected to be included in the body of a standard.</p> <p>The Task Force also concluded that it may not be desirable at this time to prescribe what specific purpose(s) all appendices should be used to serve – flexibility to accommodate individual circumstance was consider an important consideration. However, the Task Force agreed that a statement of the purpose and intended use of an appendix should be clearly made in the body of an individual standard or within the title and introduction of the appendix itself.</p>

<b>PRACTICE STATEMENTS</b>	
<p>What level of authority should attach to Practice Statements?</p> <p>Whether, and if so the what extent, professional requirements should be included in Practice Statements?</p>	<p>The Task Force concluded that Practice Statements should not establish new principles, but otherwise should carry the same authority as the International Standard(s) to which they relate. Given that Practice Statements primarily interpret existing standards in particular circumstance, they should be able to contain professional requirements (both unconditional and presumptively mandatory requirements), explanatory material and other procedures.</p> <p>The Task Force does not believe sufficient time has been permitted to study more fundamental changes to the use, or authority, of Practice Statements or the extent of due process to be applied to them. However, conclusion of such matters was not viewed as critical to the objectives of this project.</p>
<b>IMPLEMENTATION AND COMMUNICATION</b>	
<p>How should the new drafting convention be implemented and communicated without confusing users?</p>	<p>The Task Force has considered whether application of the concepts in the new drafting convention to existing standards would be possible. The Task Force concluded that the clarification of 'equal authority' and the use of bold lettering only to principles makes extension to existing standards problematic, and may create undue confusion within the international arena. Accordingly, the Task Force agreed that prospective application is necessary.</p> <p>It is proposed that the new drafting convention be communicated by way of a Policy Statement exposure draft, along with proposed amendment to the existing Preface. The rationale for this approach reflects the prospective manner in which the new drafting convention is to be implemented; that is, there is a need to retain the present Preface description of the authority of existing standards, while also embedding the authority of future standards and Practice Statements within the authoritative Preface. While CAG members were generally supportive of this approach, they urged the future revision process to be conducted as soon as practicable.</p>

EXPOSURE PERIOD	
Whether the proposed exposure period of 60-days ending February 29, 2004 is appropriate?	The Task Force strongly urges the IAASB to approve the proposed document in December 2003 and establish an exposure period ending February 29, 2004. This timetable would permit a final Policy Statement to be issued by June and effective by September 2004, allowing IAASB Task Forces to adopt the new conventions in new exposure drafts planned for issuance in September. Delay in concluding on these drafting conventions may result in IAASB timetable slippage and/or significant redrafting of work-in-progress.