



**International Federation of Accountants**

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## Agenda Item

# 2

**Committee:** IAASB

**Meeting Location:** Copenhagen

**Meeting Date:** June 14-17, 2004

### **Improving the Clarity of IAASB Standards**

#### **Objectives of Agenda Item**

1. To discuss and agree on a proposal to improve the clarity of IAASB standards.
2. To agree on the way forward.

#### **Background**

In response to encouragement by the International Organization of Securities Commissions (IOSCO), certain national standard setters and others to clarify certain aspects of IAASB's standards<sup>1</sup>, in 2003 the IAASB undertook a review of the drafting conventions used in its standards. The objective of the review was to identify ways to improve the clarity, and thereby the consistent application, of International Standards issued by the IAASB. The proposals arising from that review included recommendations on the use of language, the treatment of sentences describing audit procedures or actions in the present tense and the use of the bold type lettering convention. In addition, the proposals responded to concern that there may, in some quarters, be the perception that the auditor need only consider sentences presented in bold type lettering and that guidance in grey type lettering could be overlooked. It was therefore proposed that the whole text of a standard should carry 'equal authority.'

The IAASB recognised the need to clarify the drafting conventions used in its standards, but raised a number of concerns about the proposal. One concern was that a new drafting convention might result in an unreasonable increase in the number of detailed professional requirements and, consequently, a move away from a focus on basic principles and essential procedures and the application of professional judgement. Further work on the consequences of the application of the proposal to existing standards was therefore required. The IAASB was also concerned, however, that the proposal sought to deal only with one aspect of the problem. It concluded, therefore, that consideration should also be given to the issues of the length and complexity of the standards and the way in which they are structured.

#### **Task Force Members**

The IAASB Clarity of Standards Task Force comprises Mr Kellas (IAASB Chairman), Ms Esdon (IAASB Vice Chair), and Messrs Fogarty, Plaistowe, Sylph (IAASB Technical Director) and Tremoliere. Mr Grant, technical advisor to Mr Plaistowe, has participated in each of the meetings of the Task Force.

<sup>1</sup> Based on responses to the IAASB's November 2002 Exposure Draft, *Proposed Terms of Reference, Preface and Operations Policy No 1 – Bold Type Lettering*.

**Activities since Last IAASB Discussion**

The IAASB Clarity of Standards Task Force has met three times since the December 2003 meeting of the IAASB. As input into its deliberations, the Task Force considered, among other matters, the following:

- The views of representatives of the national auditing standard setters network about how the clarity of the standards could be improved.
- The proposed Rule issued by the US Public Company Accounting Oversight Board (PCAOB) regarding certain terms used in its auditing and related professional practice standards.
- The preliminary views of some regulators, including IOSCO.
- The findings arising from an exercise performed by Mr Noonan, a past member of the IAASB, of applying the language conventions proposed to the IAASB in December 2003 to selected ISAs.
- The findings arising from a review commissioned by the UK Auditing Practices Board from the British Standards Institute of UK auditing standards.

**Matters for the Attention of the IAASB****DISCUSSION PAPER**

The enclosed Discussion Paper highlights aspects of IAASB's standards that have been identified for possible improvement and, based on these, presents a proposal to improve their clarity. The proposal therein seeks to respond in a comprehensive and integrated way to the concerns raised, and suggestions made, by certain regulators, national auditing standard setters and others. It is not the intention of any aspect of the proposal to weaken the effect, or reduce the applicability of, IAASB's standards. On the contrary, the proposal endeavors to strengthen these standards through achieving greater clarity as to their requirements.

**POSSIBLE IAASB CONSULTATION PAPER**

As a first step in informing users, regulators and others of the proposed direction to improve the clarity of IAASB standards and in obtaining feedback thereon, the Task Force believes that the issuance of some form of an IAASB "Consultation Paper" merits consideration.

The enclosed Discussion Paper has been constructed in a manner that could facilitate conversion into such a Consultation Paper. The Consultation Paper would not be intended to represent the final view of the IAASB; indeed, there are aspects of the proposal where the IAASB may not be able to put forward an agreed solution. This, however, should not preclude consultation as the objective would be to seek additional input to the proposal for purposes of determining a framework that could be used to begin the clarity improvement process.

If the IAASB approves the direction being taken, it is envisioned that a proposed Consultation Paper, revised to reflect comments from the IAASB, could be put forward by the Task Force for ballot voting by the end of June. A comment period ending mid-October 2004 would provide the IAASB with an opportunity to understand the major views of stakeholders in December 2004.

**VIEWS OF THE TASK FORCE**

The proposal contained in the agenda material is not intended to present a definitive view of the Task Force. While there is general agreement on the need to address the distinction between professional requirements or obligations and explanatory material, including the use of the present tense, there are divided views on the need to, and the way in which, standards could be

restructured. In addition, the Task Force is divided on the approach to implementing the proposal. The recommendations presented, however, reflect the balance of the views of the Task Force.

### Material Presented

Agenda Item 2-A (Pages 563 – 580)	Discussion Paper – Improving the Clarity of IAASB Standards
Agenda Item 2-B (Pages 581 – 626)	Illustrative Restructured <i>New ISA 315</i> (Clean)
Agenda Item 2-B.1 (Pages 627 – 698)	Illustrative Restructured <i>New ISA 315</i> (Mark-up)
Agenda Item 2-C (Pages 699 – 744)	Mapping Document – Original ISA 315 to <i>New ISA 315</i>
Agenda Item 2-D (Pages 745 – 786)	Illustrative Restructured <i>New ISA 240</i> (Clean)
Agenda Item 2-D.1 (Pages 787 – 858)	Illustrative Restructured <i>New ISA 240</i> (Mark-up)
Agenda Item 2-E (Pages 859 – 890)	Mapping Document – Original ISA 240 to <i>New ISA 240</i>

### Suggested Process of Review

The following process of review is suggested for purposes of IAASB discussion in June:

- A review of the Discussion Paper (Agenda Item 2-A) with the objective of obtaining IAASB views and agreement on the various elements of the proposal and on the way forward.
- A paragraph review, on an exception basis, of the restructured *New ISA 315* (Agenda Item 2-B). While clean and marked-up versions of *New ISA 315* are provided for the convenience of the IAASB, **only the clean copy will be used at the meeting for purposes of this discussion.** In preparing for this discussion, the IAASB is asked to consider *New ISA 315* in parallel with the Mapping Document contained in Agenda Item 2-C. At this stage it is more important to be satisfied on the principles rather than all details of the proposed revised version of the ISA.
- A paragraph review, on an exception basis, of the restructured *New ISA 240* (Agenda Item 2-D), following the same process suggested for the review of *New ISA 315*.

### Action Requested

The IAASB is asked to consider the proposal and the related illustrative restructured ISAs, and the matters raised by the Task Force for consideration, with the objective of agreeing on the way forward on the project to improve the clarity of IAASB standards.

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