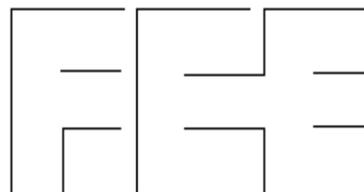


Date
14 December 2004

Le Président

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Mr. J. Sylph
Technical Director
International Auditing and Assurance Standards Board (IAASB)
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Edcomments@ifac.org

Dear Mr. Sylph,

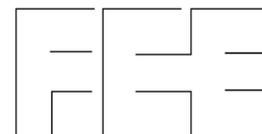
Re: Exposure Draft - Proposed Policy Statement, “Clarifying Professional Requirements in International Standards Issued by the IAASB” and Consultation Paper – Improving the Clarity and Structure of the IAASB Standards and Related Considerations for Practice Statements

As the representative organisation of the European accountancy profession, FEE is pleased to comment on the Exposure Draft - Proposed Policy Statement, “Clarifying Professional Requirements in International Standards Issued by the IAASB” (the “Proposed Policy Paper”) and Consultation Paper – Improving the Clarity and Structure of the IAASB Standards and Related Considerations for Practice Statements (the “Proposed Consultation Paper”).

FEE strongly supports the initiative of the IAASB to improve the clarity of International Standards on Auditing (“ISAs”). The present standards have been developed over a period of years during which the drafting conventions have changed, and it is timely to consider improving their presentation and clarity as the implementation of ISAs throughout the European Union gathers momentum.

This said, FEE also recognises that the existing standards should not be dismissed as in some way inadequate. While their clarity can certainly be improved, FEE believes that they provide sufficient basis for an expert auditor to undertake a good audit or to assess the quality of an audit after its completion. It would be wrong to view the clarity project as a signal that ISAs are not ready to be implemented.

We believe that our detailed comments which follow would further enhance the clarity of the International Standards issued by the IAASB and therefore help improve the quality of audits. In addition to our main comments on the Proposed Policy and Consultation Papers and our response to the questions set out in the proposed documents, this comment letter also includes comments on specific paragraphs.



Main Comments

Determining the outcome of the proposals

Certain paragraphs in section “III Understandability of IAASB Standards” of the Proposed Consultation Paper indicate that the IAASB has yet to determine what the specific outcome of the proposals included in the Proposed Policy Paper and Proposed Consultation Paper will be. It appears that IAASB has not performed significant research to determine for instance to what extent the number of professional requirements will increase. FEE is very concerned at this apparent step into the unknown.

The illustrative examples suggest that adopting the proposed new approach will result in myriad presumptive requirements or “shoulds”, which may have long term consequences for the nature and quality of the auditing profession. This approach will encourage a box-ticking approach rather than the exercise of skilled professional judgement, particularly given the proposed documentation approach. Together, these proposals suggest a narrow view of audit quality which risks emphasising documentation over insight and compliance over thought. We believe that IAASB must be very comfortable that each proposal to add a further “should” is carefully tested to make sure that it will in practice result in better audit quality at an appropriate cost to stakeholders. This is very important as the proposals made will result in radical changes.

In FEE’s opinion, it is essential that IAASB should link the proposals included in the Proposed Policy Paper to the issues included in the Proposed Consultation Paper. No clarity project resulting in more standards should be carried out without considering and improving the style of the International Standards, including the restructuring of the professional requirements, the identification of fundamental principles and clarification of the status of the Practice Statements; all issues which are considered in the Proposed Consultation Paper.

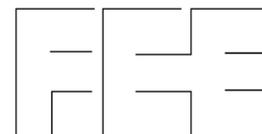
Exposure Draft - Proposed Policy Statement, “Clarifying Professional Requirements in International Standards Issued by the IAASB”

Preference for objectives-based International Standards

FEE has always been a strong proponent of “principles-based” or “objectives-based” International Standards on Auditing. This does not mean FEE supports lightweight standards, with no “rules”, from which it is impossible to judge the quality of audit work. Rather, a “principles-based” or “objectives-based” system is one in which specific objectives must be achieved at each stage of an audit in support of the overall opinion, but in which the procedures set out in the standards as necessary to achieve those objectives are limited to those that are essential and where other procedures have to be developed by the expert auditor to fit the circumstances. The onus is on the auditor to explain in the working papers how the objectives have been achieved and how the opinion has been supported.

In a “rules-based” or “detailed procedures-based” system, there is an inevitable tendency to lose sight of the objectives while focusing on following all the required procedures. Preparing audit papers that comply with the mandatory procedures becomes an objective in its own right, in the mistaken belief that compliance is an adequate defence after an audit has failed and investors have suffered loss.

FEE is of the opinion that it is essential to the auditing profession that international professional standards are based on a set of robust principles or clear objectives, as opposed to more detailed procedure-based standards. High quality standards based on basic principles or objectives will best serve the public interest by eliciting thoughtful auditor assessment of the particular circumstances of each engagement. In its 2002 Annual Report, IAASB also expresses such a clear preference for the principles-based approach.



Once principles or objectives have been set out clearly it is unnecessary to over-elaborate the procedures and actions to achieve these objectives. The professional must be able to exercise judgement on what is appropriate to the circumstances. In deciding on the objectives and how much detail needs to go into standards we believe that:

- An objectives-based approach is appropriate because it provides a flexible framework for a multi-cultural, multi-lingual and multi-jurisdictional environment. Adoption of objectives-based standards and the application of them by numerous countries (in casu member states of the European Union) will work as a driver of high audit quality;
- Standards must be responsive to the changing needs of the public interest, which can be achieved in a more effective way through achievement of objectives than through technical compliance with procedures;
- Auditing is a highly judgemental process that has to adapt to an infinite range of circumstances. An objectives-based approach allows for the use of professional judgement;
- An auditing approach based on robust principles or objectives allows for responsiveness in complex situations or following new developments;
- For auditing techniques to continue to develop there must be space for innovation. Innovation, which is largely driven by competition between firms, would be restricted if their audits were required to follow procedures which have become out of date;
- Quality auditing relies to the greatest extent on the abilities and attitudes of the people in the profession. A profession that puts compliance with procedures above thought and professional judgement, in which innovation and initiative are suppressed by excessive regulation, will not be able to attract and retain people with the ability needed to fulfil their public duty;
- A unique set of objectives supports the conviction that “an audit is an audit”, according to which the same objectives are applicable to the audit of all entities, regardless of their juridical form, size and ownership (government/private owners), which allows for the harmonisation of professional standards at the national, European and international level;
- Although an objectives-based approach must be supported by a number of essential procedures, that number must be carefully considered, and the “objectives-based” character of the standards must be preserved.

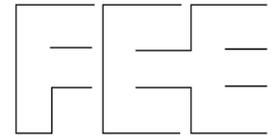
FEE therefore believes that the objectives-based approach to International Standards on Auditing (ISAs) must be retained and strengthened in the future. Any restructuring or clarification of standards must achieve this aim.

Because FEE believes in standards being based on principles or objectives it is important that IAASB develops in further detail its proposals for fundamental principles underlying an ISA audit. We comment later on the proposals in Section IV of the Proposed Consultation Paper.

Think small first

We encourage IAASB to give high priority to considering the applicability of its proposals to the audit of small and medium size entities. FEE is especially concerned that some of the findings of the study “Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs” and of the study “Implementation of International Accounting and Auditing Standards – Lessons Learned from the World Bank’s Accounting and Auditing ROSC Program, September 2004” seem not to have had sufficient influence in the proposals of the Proposed Policy Paper and Proposed Consultation Paper. FEE believes that IAASB should give more weight to the “think small first” principle.

If the objectives and essential procedures had regard to their applicability to all entities this would result in clearer and more effective standards. The basic standards could be extended with additional procedures specific for certain sectors or more complex situations.



FEE agrees with IAASB that in addition to objectives, a number of rules or requirements should be included in International Standards, as long as the number of professional requirements remains within acceptable limits. However, FEE is concerned that the proposals for requirements and presumptive requirements as included in the Proposed Policy Paper and as commented on hereafter, risk increasing the number of requirements in an unacceptable way. This is not compatible with an objectives-based standard setting approach and will be a significant additional burden for professional accountants, with a significant risk that it will result in reduced audit quality, both in the short term as attention is diverted to box-ticking when time could be better spent on thoughtful analysis and responses to risks; and in the long term to the extent that talented people may be inhibited from joining the profession. These risks are especially grave for small and medium-sized practitioners on whom an excess of requirements will have a disproportionate impact.

FEE recommends that SME issues should be at the heart of the standard-setting process, not an afterthought. For example, the approach taken in ISA 315 and 330 of adding a few paragraphs on SME audits is not satisfactory and needs reconsideration. There is genuine concern that ISAs are becoming more complex and over-lengthy for all practitioners but in particular for SMPs. Principles-based standards are essential for SMPs since this will help reduce the size and complexity of standards and the burden on them.

The use of presumptive requirements and the related documentation issues

FEE is concerned that the proposals for two categories of professional requirements, i.e. requirements and presumptive requirements, included in paragraphs 2 to 5 of the Proposed Policy Paper, will increase the number of bold type requirements to such an extent that audit quality will not be served. Therefore, FEE recommends IAASB to reconsider the proposals as follows:

- Departure from presumptive requirements should be allowed, in fact encouraged, in circumstances where application of such requirements is not meaningful and a more thoughtful approach will achieve the audit objective. Therefore, FEE proposes deletion of the stipulation that the professional accountant may depart from the presumptive requirement only “in rare circumstances”. FEE is especially concerned about the term “in rare circumstances” for characterisation of a presumptive requirement as it results in presumptive requirements that are so close to “shall” requirements as hardly to be distinguishable;
- We agree that departure from presumptive requirements should be allowed if alternative procedure(s) have been performed that are sufficient to achieve the objectives of the presumptive requirement. But it should be unnecessary in this case to impose a documentation burden on the professional accountant in addition to having to document the alternative procedures performed;
- Should presumptive requirements should be imposed as little as possible and should be restricted to those circumstances where performing those procedures or actions is clearly the most effective way to achieve the objective of the presumptive requirement. We note that adopting an objectives approach will require careful drafting by IAASB;
- We favour more frequent use of the presumptive requirements indicated by the words “should consider” whereby the professional accountant is required to consider compliance with the presumptive requirement in all cases in which the circumstances exist to which the presumptive requirement applies but the professional accountant may use his professional judgement to consider to depart from the requirement in the circumstances and is allowed flexibility depending on the circumstances of the audit engagement. This should in our view be encouraged, rather than over-emphasising “should” requirements that may not always be the most efficient and effective procedure;
- We consider that the proposed documentation requirement surrounding the “should consider” requirement needs to be clarified. It seems to be proposed that documentation of the “should consider” is only required if the procedure or action was not considered, but if the auditor has to document not considering the matter does that not effectively mean that the matter will have to be considered. We consider that ordinarily, where procedures are performed and documented it should not be necessary to separately document the “considering”. Also, as above, if satisfactory alternative procedures are performed it should be unnecessary to document why a different procedure was not performed.

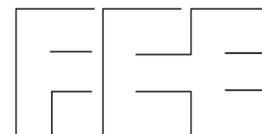
Basis of application

In paragraph 12 of the Proposed Policy Paper, it is explained that the provisions of the Policy Statement will apply on a prospective basis.

FEE is of the opinion that such approach will be problematic and that the provisions of the Policy Statement included in the Proposed Policy Paper should apply to all existing International Standards as well as to future exposure drafts on the date of final approval of the Proposed Policy Statement. From a practitioner perspective the "first approach" described by IAASB in its Explanatory Memorandum as 'consisting of developing and issuing for exposure at a single point in time a complete package of all International Standards on Auditing (ISAs), revised following the conventions proposed in the Proposed Policy Statement', is preferable to a stepped approach whereby the revision of the existing standards is performed following a predetermined time schedule in order to resolve the staff resource issue without compromising the IAASB due process.

FEE recommends the 'first approach' for the following reasons

- IAASB's first priority should be to get the existing ISAs adopted by regulatory authorities around the world, including the endorsement of the ISAs by the European Commission. After this is done the IAASB should take the time necessary to clarify and restructure all the ISAs, if necessary putting on hold the issue of new ISAs during this restructuring period. This holding period could last from six months to one year and the objective would be to allow countries a stable period for the initial implementation of ISAs. It would also create the opportunity for the IAASB staff and board to do both clarification and restructuring at the same time and to implement "the first approach";
- Endorsement of International Auditing standards (ISAs) which are based on two distinct approaches or which will all need to be amended in the near future will in our view be more difficult. The existence of two separate sets of ISAs (old and new style ISAs) will not be perceived as contributing towards the quality of auditing;
- In case the ISAs become a statutory instrument, such instrument cannot assign different meanings to identical terminology. From a legal point of view, the language, words and terms used in International Standards should each time mean the same and need to be understood in a uniform way. This would not be the case where two sets of International Standards (old and new) exist. Taking the example of "should", in many existing International Standards this term is used for requirements which are mandatory whereas in the new International Standards "should" would be used for presumptive requirements, from which the auditor may deviate within certain conditions. If both applications remain unchanged and are to be applied simultaneously it will lead to legal uncertainty and inconsistent application internationally and ultimately undermine acceptance of the ISAs. It would be extremely difficult, for third parties in particular, to ascertain the level of authority pertaining to for instance, "should" statements in any given ISA;
- It will at best potentially be confusing and may not be practicable that professional accountants will need to perform an audit based on two different sets of standards which differ significantly in the level of applicability of technical requirements, types and categorisation of requirements, language, structure and words and terms used. This would result in reduced understanding of the procedures and actions to be performed, personal interpretation of the meaning of International Standards and consequently decreased audit quality;
- Certain EU member states are already adopting the "first approach" to the introduction of ISAs. In those countries it has been widely accepted as a clearer and better approach than piecemeal introduction, because it provides greater certainty and a stronger implementation focus.



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

Status of application material and Practice Statements

Following careful consideration of the Restructuring Options A and B as described in paragraphs 19 and 20 of the Proposed Consultation Paper, FEE is of the opinion that a restructuring similar to Restructuring Option A is preferable.

The restructuring option favoured by FEE would require:

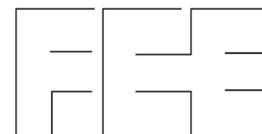
- All professional requirements (shall or must – as explained in further detail hereafter) and presumptive requirements (should and should consider) are included in the standard (ISA);
- All definitions, concepts, clarification of terms and further description (essential application material) or material needed in order to understand and apply the requirements and presumptive requirements are also included in the standard (ISA) so that the standard can be understood and used as a stand-alone document;
- All other material, including additional application material not needed to understand the requirements and presumptive requirements, all other explanatory material, all interpretative guidance, all additional guidance, all best practices, all other considerations, all examples, etc, do not form part of the standard and are therefore to be included in a Practice Statement (IAPS);
- The Practice Statement would not form part of ISA but would be referred to in ISA as material having IAASB authority and that therefore should be considered by auditors applying ISAs.

The advantages of the restructuring option as described above are as follows:

- Such restructuring would be expected to result in shorter, more understandable, less complex standards – such shorter ISAs would however contain all principles and requirements applicable to all audits;
- Such restructuring follows a structure and approach similar to existing ISAs whereby bold and grey lettering and application material continues to be included in the standard itself, but whereby only necessary application material is retained in the standard;
- This will be a more evolutionary than revolutionary approach and will likely be seen as more straightforward to implement;
- Having essential application guidance after the relevant standards allows for readier understanding of the points relevant to considering how the principle or essential procedure should be applied;
- Adopting the different wording convention in the same document clearly indicates the different impact of the convention on both the requirements and the application guidance; there is for example no doubt what is a requirement (bold type) and what is application guidance (grey type);
- Using Practice Statements for supplementary application notes and explanatory material gives flexibility for such statements to cover different situations, including different regulatory environments, different types and complexity of entities;
- As the Practice Statements may not need to go through the same due process as the standards, the guidance can be prepared and updated more easily.

However, a restructuring as preferred by FEE will also require that certain items, which it can be argued are currently not completely clear, are further considered and clarified by the IAASB:

- It is crucial that for the restructuring option as described above to work properly in practice, the status or authority of a Practice Statement (IAPS) versus a standard is clarified by IAASB;
- This results from the fact that IAPS currently cover several different types of statements and the contents includes, it would appear, material that may need to be in future ISAs that should contain essential application material;
- The status or authority of a Practice Statement (IAPS) should be authoritative in the sense that it is issued by the IAASB but the guidance contained therein is advisory in nature, comprising good practice;
- The auditor would be expected to be able to justify why the guidance in the Practice Statement has not been followed but it would be unnecessary to document why it has not been followed;



- Where the ISA makes reference to the IAPS, the auditor would be expected to consider the IAPS;
- During the period where both “old” and “new” IAPSs exist together, a transitional arrangement for the status of the IAPSs will be required.

It should be noted that the illustrative examples as included in the Supplement to the Proposed Consultation Paper only demonstrate the impact of the proposals included in the Proposed Policy Statement on the clarification of the professional requirements and the resulting wording changes and do not illustrate the effects of any restructuring option. We have therefore chosen not to comment on the illustrative examples as included in the Supplement to the Proposed Consultation Paper.

Response to IAASB’s Request for Responses on Questions

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

Question 1: equal authority

FEE agrees with the IAASB that the use of the term “equal authority” would not enhance the effect of the intended changes further.

Question 2: proposed categories of professional requirements

FEE is concerned that the proposals may have unintended consequences, specifically of breeding a box-ticking approach that is the opposite of the thoughtful professional approach that is required to achieve high standards of quality. For further details, we refer to our main comments on “the use of presumptive requirements.”

Question 3: improvement of quality and consistency of audits following proposals

FEE is of the opinion that the proposals as included in the Proposed Policy Paper deviate from the “principles-based” or “objectives-based” approach which IAASB has supported hitherto. Were International Standards to become excessively descriptive and too rules-based or “detailed procedures-based”, with unduly burdensome documentation obligations, it can be expected that the quality of the audit may decrease rather than increase.

For further explanations, we refer to our main comment on the “preference for objectives-based International Standards”.

Question 4: proposed documentation requirements in case of departure from a presumptive requirement

FEE does not agree with the proposed documentation requirements in case of departure from a presumptive requirement. For further details, we refer to our main comment on “the use of presumptive requirements”.

Question 5: applicability of the proposed documentation requirement for departures from existing International Standards

Our separate letter of comment on the Proposed ISA 230 (Revised) “Audit Documentation” will argue that it is only necessary to document departure from a required International Standard where the procedure is relevant and satisfactory alternative procedures have not been performed and documented.

We also refer to our main comment above on the “Basis of application” for the Proposed Policy Paper where we express our preference for “the first approach” whereby clarification and restructuring of ISAs will be finalised by IAASB at the same time.

We do not believe it is necessary for the adoption of the existing ISAs to impose a new requirement to document departures from existing standards; the existing documentation requirements will suffice. Instead IAASB should focus on the clarification and restructuring exercise and on the finalisation of the revised ISA 230.

Question 6: proposed terms “shall” and “should” and translation difficulties

After consultation with professional accountants representing the 20 languages of the European Union, it became apparent that the terms “shall” and “should” will result in significant translation difficulties in many countries.

Therefore, FEE proposes the use of the term “must” instead of “shall” for a requirement the professional accountant is required to comply with in all cases. “Shall” does not evoke such a strong requirement in a considerable number of languages. Most professional accountants consulted were of the opinion that the term “must” translates in their language as an obligation from which deviation is not possible.

However, “must” requirements should be used sparingly for specific audit procedures related to financial statement items. By way of example, it would not be practicable to state that the auditor “must” observe stocktaking procedures at period end. Ordinarily this is desirable and should therefore be considered, however circumstances could prevent attendance.

For further details on “should” and “should consider”, we refer to our main comments on “the use of presumptive requirements”.

Question 7: concern over the specificity and level at which professional requirements are set

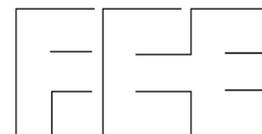
FEE favours “principles-based” or “objectives-based” International Standards but agrees with IAASB that in addition to principles or objectives a number of rules or requirements should be included. FEE accepts this on the condition that the number of bold type professional requirements remains within acceptable limits. However, FEE is seriously concerned that the proposals for requirements and presumptive requirements as included in the Proposed Policy Paper will increase the number of bold type requirements significantly. This is not compatible with a “principles-based” or “objectives-based” standard setting approach. This concern is aggravated by the proposed documentation requirement in case of a departure from a presumptive requirement.

We refer to our main comment on “determining the outcome of the proposals”, “think small first” and “the use of presumptive requirements” for further details on our concerns related to the specificity and level at which professional requirements are set.

Question 8: retention of bold type convention

As stated earlier, FEE believes the existing ISAs are effective and FEE therefore is comfortable with the use of bold type lettering; it is helpful to emphasise certain aspects of “principles-based” or “objectives-based” standards, in bold type lettering, with necessary application and explanatory material in grey type lettering, not least because it helps ensure that the basic requirements are considered before going into more detail, a point which is appreciated by small and medium-size practitioners.

The use of bold type lettering is intrinsically linked to the restructuring option preferred as further detailed in paragraphs 16 to 29 of the Proposed Consultation Paper. In case Restructuring Option A (paragraph 19) is chosen whereby professional requirements and necessary explanatory material continue to be included in one document, bold type lettering would continue to serve its purpose. In case the restructuring option is retained whereby the professional requirements are separated from most of the application and explanatory material (Restructuring Option B – paragraph 20), there is no longer a need for the use of bold type lettering for clarity purposes. As FEE is in favour of a restructuring option similar to Restructuring Option A, FEE is also in favour of the retention of the bold type convention.



Question 9: application of the proposals on a prospective basis

In our opinion the provisions of the Policy Statement included in the Proposed Policy Paper should apply from the date of issue of the revised standards, subject to an effective date being agreed. We refer to our main comment on “Basis of application” for further details; as indicated we favour the “first approach”.

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

Question 1: length and style of recently issued standards versus their understandability and clarity

Some recently issued standards like the risk ISAs are longer than previously issued International Standards and arguably more complex. As regards whether this has adversely impacted understandability and clarity:

- Increased length will not necessarily mean increased complexity; indeed longer documents can be clear enough if the drafting is good;
- In the case of the risk ISAs their length is a challenge to their understandability and clarity for some practitioners. The combination of requirements and application guidance in the one document has in some cases been considered to make for unduly complex documents;
- The length of an International Standard can also contribute to a time-consuming exercise on some audits or in some firms of running through the standards to know which aspects of the application material are relevant to which audits;
- It should finally be noted that the length of the International Standards is a particular concern for small and medium-sized practitioners performing relatively simple audits.

We believe that one of the key areas of improvement to ISAs worth making is the need for clarification of the objective of the standards. This is at two levels:

1. It helps to provide a description of the thinking behind the standard to enhance the understandability of the standard overall; for example, a brief, comprehensive description of the overall audit objective that is to be achieved by the standard and the role the particular standard has in the whole ISA picture would be very helpful;
2. Secondly, as explained at the beginning of this letter, it is essential that individual requirements in standards combine the basic principle or essential procedures with explanation of the audit objectives to be achieved by them. Further, explanation of how the objective is supposed to be met by linking the thinking to the fundamental principles underlying an ISA audit would be equally useful.

As far as style is concerned, we believe that a clear policy should be set out on the standard of written English IAASB intends to achieve in its output. For example, avoidance of long, complex sentences and idiomatic phrases would facilitate translation into the 20 languages of the European Union. Also, the meaning of the words and terms used should be unambiguous and clear.

Question 2: concerns over length of the standards and what is viewed as problematic

We refer to our comments on the length of the International Standards already stated in our main comment on the Proposed Consultation Paper on “determining the outcome of the proposal”, “think small first” and to our comments included in question 1 of the Proposed Consultation Paper.

Standard setting should be based on the “think small first” principle. The basic requirements common to all engagements should be included in the standards, which would in our opinion result in shorter standards which clearly indicate which basic procedures and actions the professional accountant is expected to perform. International Standards should be accompanied, where necessary, by practice statements or application notes which are specific for a certain sector like small and medium-sized entities or the public sector. See also our responses to Question 13 on the Proposed Consultation Paper.

Question 3: helpfulness of the degree of detail provided in the standards

We refer to our responses to Question 2 of the Proposed Consultation Paper and to our main comments on the Proposed Policy Statement.

Question 4: options for improvement

We recommend to issue International Standards based on the policy that clear words and terms are used, with short sentences, avoiding idiomatic phrases and unnecessarily complex sentences or paragraphs. As already indicated, such policy would also facilitate translation into the 20 languages of the European Union.

Question 5: restructuring of ISAs

FEE is in favour of restructuring the ISAs. We believe that the major reason for a restructuring is to clarify the structure of the ISAs as well as the status of the different parts of an ISA such as the professional requirements and the application and explanatory material. Restructuring is expected to strengthen the audit requirements and enhance the applicability of the ISAs. Restructuring would also aid in clarifying the authority and applicability of the IAPs.

Question 6: option for restructuring of ISAs

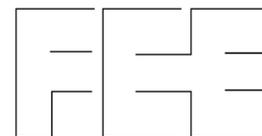
FEE is of the opinion that a restructuring similar to Restructuring Option A is preferable to Restructuring Option B.

We refer to our comments on the “status of application material and practice Statements” as explained in our main comment on the Proposed Consultation Paper for further details on the reasons that were persuasive in reaching our view.

Question 7: application of the restructuring on a prospective basis

FEE is of the opinion that a prospective approach would be problematic and that the provisions of the Proposed Consultation Paper should apply to all existing International Standards as well as to future exposure drafts on the date of final approval of the Proposed Policy Statement. From a practitioner perspective the “first approach”, whereby all existing standards are revised at once, is preferable to a stepped approach whereby the revision of the existing standards is performed following a predetermined time schedule in order to resolve the staff resource issue without compromising the IAASB due process.

We refer to our comments on the prospective approach as explained in our main comment on the Proposed Policy Paper on “basis of application” for further details on the reasons that were persuasive in reaching our view.



Question 8: identification of fundamental principles underlying an ISA audit

As already explained in our main comment on the Proposed Policy Paper on the “preference for objectives-based international standards”, FEE is a strong proponent of “principles-based” International Standards and therefore supports the concept of having principles and ethical requirements underlying an ISA audit. We encourage IAASB to pursue the identification of a set of high level principles, referred to in the consultation paper as fundamental principles.

We do not share the concern expressed in the paper that the development of principles may only be of assistance to the IAASB and standard setters and not be useful to practitioners. FEE is of the opinion that principles are equally valuable to practitioners, as further detailed in our main comment on the Proposed Policy Paper on “preference for objectives-based International Standards”.

We encourage IAASB to consider the consistency of the terminology used in respect of “principles” as reference is not only made to “fundamental principles” but also in various places to “basic principles” and “general principles” in the Proposed Policy Paper and Proposed Consultation Paper. We also encourage IAASB to consider the consistency of the terminology used in respect of “principles” in other IAASB and IFAC (International Federation of Accountants) material. The International Framework for Assurance Engagements, ISA 200 “Objectives and General Principles Governing an Audit of Financial Statement” and the IFAC Code of Ethics for Professional Accountants also make reference to “concepts” and “fundamental ethical principles”. We prefer that the same terms are used throughout when referring to the same things.

FEE does not believe there is a significant difference between “fundamental principles” and “principles”. In the context of principles-based standards the word “fundamental” might even be misleading”. Individual ISAs already include more details as to how the principles referred to in the paper as “fundamental” need to be applied; in future other ISAs may be needed to explain in more detail how these principles should be applied. FEE would expect that the professional requirements described as “shall” would mirror the high level principles and that those high level principles will be supplemented by professional requirements in the form of more detailed objectives.

Question 9: priority of identification of fundamental principles underlying an ISA audit

We believe that the priority to establish fundamental principles underlying an ISA audit is high, because it will help identify the “shall” requirements of ISAs and where further professional requirements in the form of objectives need to be identified to explain how the high level principles should be applied.

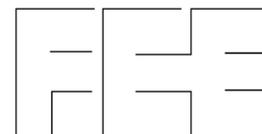
Question 10: appropriateness of the proposed fundamental principles underlying an ISA audit

FEE is of the opinion that professional requirements in auditing and assurance standards should be based on principles as already explained in further detail in our response to question 1 on the Proposed Consultation Paper.

We have some doubts about the appropriateness of the process for identifying the fundamental principles in the paper; their identification should be based on systematic analysis and the development of a conceptual framework. We recommend further study and issue of a separate exposure draft to stimulate further debate.

In relation to the fundamental principles in paragraph 42 of the Proposed Consultation Paper, we suggest that the differences between (i) Rigor and Scepticism, (k) Evidence and (l) Documentation are not clear.

We also note that some of the existing list are already supported by individual ISAs or other standards or by material within ISAs, and some are not; we question the logic in the different approaches currently adopted. This situation suggests to us that the clarity of ISAs would be served by further work on the principles, including the extent to which they should be supported by individual ISAs.



Question 11: expansion of fundamental principles to all assurance engagements

As audit and assurance engagements have many aspects in common and are both based on the International Framework for Assurance Engagements, as explained in paragraph 38, we believe that the fundamental principles should as far as possible serve as a basis for all assurance engagements.

Question 12: proposed authority of the fundamental principles

We agree that the fundamental principles should be afforded appropriate authority and that such authority could be on the level of a standard; as indicated earlier they can be described as “shall” requirements.

We believe that fundamental principles form the framework for the more specific individual ISAs and that all aspects of the standards should be considered when performing an audit. However, as principles are necessarily at a high level, principles have to be supported by more detailed objectives also described as “should” professional requirements in order that the principles can be applied by the auditor. Paragraph 41 in the Proposed Consultation Paper would benefit from greater clarity on the proposed authority of the fundamental principles and their relevance to performing an audit.

Question 12 (bis): description of authority and authority of Practice Statements

Although the theoretical authority of the Practice Statements is explained in the International Standards, FEE has found that in practice, many professional accountants do not have a clear view on the authority of the Practice Statements and their linkage to the other International Standards. Therefore, FEE is not entirely comfortable with the current authority of the Practice Statements.

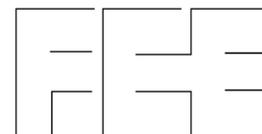
We refer to our responses to Question 2 of the Proposed Consultation Paper and to our comments on Practice Statements as explained in our main comment on the Proposed Consultation Paper on “status of application material and Practice Statements” for further details.

Question 13: changing the style of the Practice Statements

FEE recommends making the following changes to the existing three different types of IAPS as explained in paragraph 45:

- IAPSs that provide detailed guidance on information technology: FEE has noted that such IAPS are being considered in the IAASB December meeting for possible withdrawal;
- IAPSs that deal with particular issues (derivatives, electronic commerce, reporting on compliance with IFRS): the status of such IAPSs would need to be reconsidered and depending on the importance of the subject matter, these particular issues would either need to become an IAASB study, application or explanatory material or in case the subject matter is very important, an effective standard;
- IAPSs that seek to interpret the application of ISAs across groups of auditors: some of such IAPSs deal with industry-related items, like financial institutions and insurance companies, and are traditionally already regulated on a national or local level. Therefore, there is often no need for such IAPSs. Other such IAPSs concern sector-related matters, like small and medium-sized entities or the public sector, and should be addressed in the ISAs themselves or should over a period of time be integrated in the application material related to the ISA.

FEE does not support the proposal of the IAASB that Practice Statements, to the extent they are derived from professional requirements contained in the International Standards, express professional requirements. We believe that this would create confusion related to the status and use of professional requirements.



We refer to our responses to Questions 2 and 12 of the Proposed Consultation Paper and to our comments on Practice Statements as explained in our main comment on the Proposed Consultation Paper on “status of application material and Practice Statements” for further details.

Question 14: future role of Practice Statements

We refer to our comments included in question 13 of the Proposed Consultation Paper.

Comments on specific paragraphs

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

1. The terms “professional requirements”, “requirements” and “presumptive requirements” are used in the Proposed Policy Paper starting in paragraph 2 and afterwards. These terms do not form part of the current IAASB lexicon of the auditor; these terms are not defined in the IFAC Auditing and Assurance Glossary of Terms. FEE therefore suggests that these terms as well as the detailed criteria for using these terms are further clarified and included in the Glossary of Terms whereby the link and distinction between requirements and objectives is further detailed.

We also recommend IAASB to clarify the objectives of new standards “at two levels”. We suggest that when issuing new Exposure Drafts the IAASB should clearly explain in the accompanying material why a distinction is made between “shall” and “should” proposals in the specific Exposure Draft proposals.

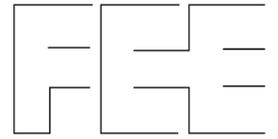
2. Although we appreciate that the Practice Statements are further discussed in the Proposed Consultation Paper, we believe that consideration of the status of the Practice Statements is imperative in the section on “Explanatory Material (paragraphs 7 and 8)” in the Proposed Policy Paper. We are of the opinion that a Policy Statement on Clarifying Professional Requirements in International Standards Issued by the IAASB should not be approved and become part of the International Standards without also considering the status of the Practice Statements.

We refer to our responses to Questions 2, 12 and 12 (bis) of the Proposed Consultation Paper and to our comments on Practice Statements as explained in our main comment on the Proposed Consultation Paper on “status of application material and Practice Statements” for further details.

3. Related to the appendices as described in paragraph 9, FEE is of the opinion that the application or use of the appendices should be clarified. It should be made clear that the appendices should never include any “requirements” but could be useful to provide the professional accountant with explanatory material, examples and checklists.

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

4. In light of our comments on linking the proposal in the Proposed Policy Paper to the issues included in the Proposed Consultation Paper already stated in our main comment on the Proposed Consultation Paper on “determining the outcome of the proposal”, we strongly encourage the IAASB to reconsider its intentions as stated in paragraphs 16 and 17 and encourage IAASB to perform a complete overhaul of all aspects of the clarity and structure of the International Standards.
5. The adaptability of the ISAs to local circumstances as described in the third bullet point of paragraph 24 should be further clarified. We believe that such means that the application material can be adapted to national requirements without losing any of the content of the standard or the application material.



If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Devlin'. The signature is fluid and cursive, with a large initial 'D' and 'D'.

David Devlin
President