

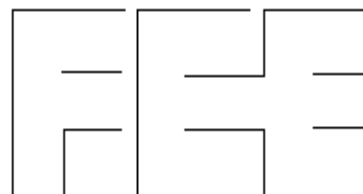
Date
6 September 2005

Le Président

Fédération
des Experts
Comptables
Européens
AISBL

Avenue d'Auderghem 22-28
1040 Bruxelles
Tél. 32 (0) 2 285 40 85
Fax: 32 (0) 2 231 11 12
E-mail: secretariat@fee.be

Mr. John Kellas
Chairman of IAASB
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA



Dear Mr. Kellas,

Re: Clarity of IAASB Standards

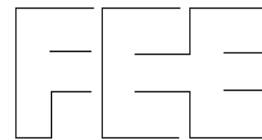
As you will be aware, FEE (Fédération des Experts Comptables Européens – Federation of European Accountants) submitted on 14 December 2004 a letter of comment on the Exposure Draft - Proposed Policy Statement, “Clarifying Professional Requirements in International Standards Issued by the IAASB” and Proposed Consultation Paper – “Improving the Clarity and Structure of the IAASB Standards and Related Considerations for Practice Statements” – the IAASB ‘Clarity’ Project. We also voiced our views on the IAASB ‘Clarity’ Project in the IAASB Consultative Advisory Group meetings of 29 and 30 November 2004 in London and of 6 and 7 June 2005 in Washington as well as in the IAASB ‘Clarity’ Forum on 11 July 2005 in Brussels.

As we said in our earlier letter, we strongly support the initiative of the IAASB to improve the clarity of International Standards on Auditing. At the Forum in Brussels we did not support the new package in the final vote and you invited us to supplement our earlier response in a further letter setting out our remaining concerns. The main reason for our vote was that we did not have a full understanding of how the proposals would be implemented, and it is the implementation which will determine the success of the project. It is inevitable that, at this stage, many of the discussions have taken place at an overview level so that all parties have tended to read in to the proposals an outcome they would each regard as meeting their objectives. Only when the first five exposure drafts have been released for comment will respondents really understand how the project is to progress. We are pleased to note that, as the Board exposes these five standards, you will invite further general comments on implementation of Clarity as a whole as well as specific comments on the standards themselves.

Since the Clarity Forum in Brussels, we have had the opportunity to review the IAASB’s Discussion Paper to be considered as agenda item 4 at the Board’s September 2005 meeting. We are pleased to note that the further clarification in that paper resolves certain of the issues that concerned us at the Forum. In particular we strongly support:

- The explicit statement that the auditor must use judgment in developing the procedures necessary to meet the stated objectives of an ISA.

This clarification will have a significant impact on the process of classifying existing present tense statements either as requirements or as explanatory material. It is made clear that it is not the task of IAASB to assemble a series of required steps designed to achieve the standard’s objective in all circumstances. It would be helpful if IAASB were to set out its reasoning for this approach explicitly, and in this way to send a signal to regulators and other standard setters that this is a necessary foundation for good auditing, not an open door to the development of further national requirements.



We think it will be important that the objectives stand on their own; we note for example that in the draft revised ISA 240 the objective is stated in terms of ‘the objective is to perform the procedures specified by this standard’. That type of objective, which in our view adds no real value, is not what we had expected. It would be more appropriate to state an objective in relation to fraud but to be clear that this is one of those cases where the specified procedures represent the full extent of what the auditor is required to do.

- The explicit guidelines for use when developing requirements.

Explicit guidelines will generally provide a sound basis for assessment of those individual sentences formulated in the present tense which will move the Clarity debate away from a simple disagreement between those who want more, or less, mandatory procedures and onto a more reasoned basis for assessing individual drafting proposals. We suggest that you invite comments on the detailed text of the guidelines when the first five exposure drafts are released.

We suggest an additional test, applicable to those requirements that are procedures, is that they should provide a suitable basis for deciding whether there has been a departure so that what will need to be documented will be sufficiently clear. We think that some of the procedures in the redrafted ISAs, although containing the word ‘shall’, are too general in their approach to meet this test.

- Confirmation that there is to be only one level of stated requirement.

Those who seek a further layer of mandatory requirements should recognise that the introduction of stated objectives for each standard effectively introduces an obligation, to meet the objective, from which there can be no departure.

We do not have a view on whether presumptively mandatory requirements should be expressed as “should” or “shall”, a subtlety of the English language that is far less important than how the term is defined in the preface.

- The removal of the condition “more effectively”.

We support this change which removes an unnecessary constraint on the ability of auditors to respond to new circumstances and to introduce innovation in the procedures they apply to meet the audit objectives. If this condition had remained in place, and if it is intended that departures should only take place in exceptional circumstances, then it would follow that a procedure should only become a requirement when the IAASB is clear that it is the *most effective* way of achieving the objective in all but exceptional cases. Applying this guideline would have presented a challenging task for the Board.

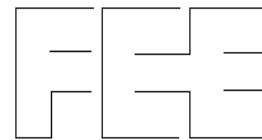
Against this background, we have some remaining concerns as explained below.

Documentation of the reasons for departure

We were disappointed that the Clarity Forum favoured an obligation on the auditor to explain why it was judged necessary to depart from a requirement. This is inconsistent with IAASB’s commitment to principles-based standards which should require the auditor to explain how the procedures followed achieved the objectives. Requiring instead an explanation as to why one set of procedures has been favoured over another is unlikely to improve the quality of the audit work and serves only to impose an unnecessary administrative burden. As business methods evolve, auditing processes will need to develop in response and it would be unfortunate if these documentation rules were to restrict innovation.

We therefore suggest a revision to the proposals so that, where there is a departure from a requirement:

- (a) the auditor should document how the procedure followed achieved the objective of the requirement; but
- (b) an explanation as to why different procedures were followed should be required only in those cases where their effectiveness is not self-evident from (a).



We also suggest that the Board clarifies how requirements that do not apply should be dealt with. In our view it is enough to make no reference to inapplicable requirements in the audit papers, but to be prepared to justify why they do not apply. It should be clear that it is not necessary for the auditor to prepare exhaustive lists of inapplicable requirements.

We note that ISA 230 “Audit Documentation” is to be considered for approval at the Board’s September meeting. We regard ISA 230 as an integral part of the framework being developed under the Clarity project and suggest that the final documentation standard be issued taking due account of these issues.

Enforceability of ISAs

We have heard concerns, particularly from those responsible for the public oversight and inspection of audits, that ISAs will need to specify considerably more mandatory procedures if they are to be enforceable. At the same time, some major investors have recently expressed the view that auditing must remain a professional activity requiring extensive use of judgement, and that accountants should not be able to defend inadequate work on the basis that they complied with all the written procedures. We recognise the challenge IAASB faces in aligning these views.

In this letter we have expressed our support for a structure in which the objectives must all be achieved and the auditor must use judgement to determine how best to do so, by combining the required procedures with other steps as necessary. We regard this as the most appropriate way of meeting the dual objectives of standards that are readily enforceable and that stimulate professional judgement.

If you have any questions, please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Devlin', written in a cursive style.

David Devlin
President