

Date
25 February 2003

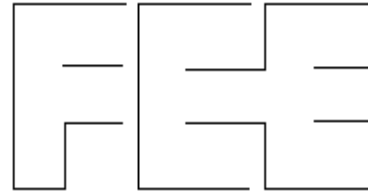
Le Président

Fédération
des Experts
Comptables
Européens
AISBL

Rue de la Loi 83
1040 Bruxelles
Tél. 32 (0) 2 285 40 85
Fax: 32 (0) 2 231 11 12
E-mail: secretariat@fee.be

Mr. I. Ball
Chief Executive, IFAC

Mr. J. Sylph
Technical Director IAASB



International Federation of Accountants
535 Fifth Avenue, 26th floor
New York
NY 10017
USA

Dear Sirs,

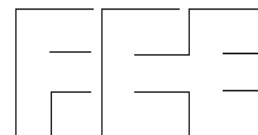
Re: IAASB Exposure Drafts "Proposed Terms of Reference. Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services and Operations Policy No 1 – Bold Type Lettering"

FEE welcomes the opportunity of commenting on the above mentioned exposure draft and generally supports the contents. Our answers to the questions raised by IAASB and related comments are set out below.

1. Comments related to the Proposed Terms of Reference and Preface

1.1. *IAASB is particularly seeking comment on whether the Terms of Reference appropriately reflect the IAASB's role as the international audit and assurance standard setter*

- a. We believe that the proposed Terms of Reference appropriately reflect the IAASB's role as the international audit and assurance standard setter, as well as its role to establish standards and guidance for other related services and for quality control standards covering the scope of services addressed by the Board.
- b. The proposed new voting procedures set out in the Terms of Reference and paragraph 24 of the Preface provide that an affirmative vote of at least two-thirds of members present at a meeting in person or by proxy or by simultaneous telecommunications link, but not less than twelve, is required to approve a standard. While we understand the intention of this change, which is to accelerate the standard setting process of the IAASB, we advise that the existing three-quarters requirement be retained. It indicates broad acceptance within the IAASB that would be considered a positive signal for the general acceptance of an ISA and for its subsequent implementation in national auditing standards by national standard setters. We note that the IAPC Review Task Force Report supported a majority of three-quarters for similar reasons.
- c. The fourth paragraph in the terms of reference makes a distinction between users, regulators and practitioners, which is relevant to the work of the IAASB. By contrast, the first bullet point in the first paragraph lists certain players in the three groups. Although the word "investors" in the first bullet point might be accepted because of the reference to "other stakeholders" at the end of

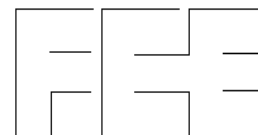


the sentence, a single reference to the users of financial statements (as defined in paragraph 9 of the IASB conceptual framework) would be preferable.

- d. In the fourth paragraph, the IAASB suggests promoting the endorsement of International Standards by legislators and securities regulators. National standard setters are not mentioned. This should be done since in many countries, legislators rely on national standard setters to develop auditing standards; it is the responsibility of these national standard setters to renounce developing their own standards in favour of ISAs. Indeed, FEE's own "Proposal on International Standards on Auditing in the EU" of November 2001 is drafted on this basis. Not to mention national standard setters is to ignore the reality in many countries and is not to the advantage of the IAASB.
- e. The expression "high quality standards" is used in the first and second bullet points of the first paragraph of the Terms of Reference as well as in paragraph 2 of the Preface. Some readers might attach some importance to the fact that the same expression is not used elsewhere, especially in the third and fourth bullet points. We suggest that this be changed. It might also be more appropriate for the IAASB to aspire to establish standards and guidance in all areas that are positively supported instead of only seeking to establish auditing standards and guidance that are "acceptable".
- f. Promoting confidence in capital markets involves increasing the understanding by stakeholders of the work performed by auditors. The auditor's report is an important means of communication with external users. However, stakeholders are equally interested in understanding in more detail what auditors are doing so that they can better support and contribute to the standard setting process. Against such a background, the IAASB's Terms of Reference should include a commitment to producing not only high quality standards understandable by practitioners but also standards using a wording and a structure accessible to external users and to the bodies that are expected to promote these standards in an international or national environment. We acknowledge that one aspect of such concerns is reflected in the question on translation included in the Invitation to Comment. However, we believe that there are broader issues of understanding at stake.

1.2. IAASB is particularly seeking comment on whether the Terms of Reference and Preface, when taken together, address all relevant matters

- a. FEE suggests mentioning explicitly in the Terms of Reference as well as in the Preface that international standards must be "principle-based" and not "rules-based". This would be consistent with the discussion in Operations Policy No 1 on black lettering. However, we note that while bold paragraphs are intended to include basic principles and essential procedures and current ISAs are excellent in specifying essential procedures, it is less clear how basic principles are dealt with. The IAASB might wish to consider articulating its overriding principles in its proposed "Assurance Framework" and to find an appropriate way of ensuring that such principles are identified in its standards.
- b. Pursuant to paragraph 10 of the proposed Preface, International Standards on Related Services (ISRSs) are to be applied in compilation engagements, engagements to apply agreed upon procedures to information, and other non-assurance services. Since we do not assume that the IAASB wants to apply ISRSs to all non-assurance services (i.e. not to all other kinds of services, such as consulting), we suggest that the last part of paragraph 10 should read: "and other related services".
- c. Paragraph 10 of Operations Policy No1 refers to the materiality principle when commenting on bold paragraphs and the use of the word "should". FEE supports the change whereby materiality is not dealt with in paragraph 13 of the Preface.

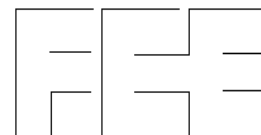


- d. Paragraph 14 of the Preface sets forth that only in extremely rare circumstances may a professional accountant judge it necessary to depart from a requirement of an Engagement Standard to achieve more effectively the objective of the engagement. When such a situation arises, the professional accountant should be prepared to justify the departure. Given the rapid change in auditing standards and the fact that it would be difficult to determine whether such circumstances would be extremely rare rather than just exceptional, we believe that the previous wording of “in exceptional circumstances” is more appropriate. Furthermore, the auditor should be required to document his decision.
- e. Paragraph 19 discusses the authority attaching to practice statements. We have three questions on this issue:
 - o Grey text constitutes explanatory and other material providing guidance for the application of basic principles and essential procedures identified in bold type and the bold and grey text need to be read together. Considering paragraph 19 of the Preface but also paragraphs 11 to 13 of Operations Policy No1, is there a difference between the status of a practice statement and the grey text in a standard? Further clarification would be helpful.
 - o Depending on the answer given to the first question, we would like the IAASB to consider whether the overall requirement resulting from the combination of the above mentioned paragraphs would not make standards too onerous in the context of litigation.
 - o There appears to be a substantial difference between IAPSs that “provide practical assistance” as mentioned in paragraph 18 of the Preface and IAPSs that auditors should then “be aware of and consider” which is the wording in paragraph 19. We question whether this strengthening is appropriate.
- f. Paragraph 22 indicates that practice statements will be effective from the date they are issued. This proposal raises problems especially when considering that the IAASB considers in paragraph 21 that there can be circumstances justifying non-exposure of an IAPS.
- g. Paragraph 22 of the Preface states that where changes made after exposure are substantial, the IAASB will consider the need for re-exposure. In our view, it is equally important for reasons of transparency for the IAASB to explain changes made after exposure and also to explain why it has not made changes requested by a significant number of commentators.
- h. It should be clarified in paragraph 26 of the Preface, that the English language version of any approved pronouncement is the sole authoritative version. There is a danger that translations of ISAs or other material originally approved by the IAASB will not completely reflect the exact meaning contained in the English original. Hence, any translation of an Exposure Draft, Standard or Statement should include a reference to the sole authoritative English version. That being said, FEE believes that the IAASB should encourage IFAC member bodies to translate its pronouncements, which is the only effective solution to ensure the widest application of IAASB standards.
- i. We believe that the Preface ought to include a definition of the nature of appendices to Standards or Statements and in particular whether the guidance included in ISA appendices may be binding on the auditor.

2. Comments related to Operations Policy No1

2.1. IAASB is particularly seeking comment on whether there is general support for retaining the distinction between bold and ordinary lettering

- a. We strongly support the retention of the distinction between bold and ordinary lettering. It manifests the belief in principle-based standard setting and it is essential for a better understanding and grasping of a standard. However, we are concerned that paragraph 6 is too



inflexible when applied to auditors of SMEs who also look to IAPS 1005 for guidance. Such inflexibility may create unnecessary barriers to the adoption of ISAs in the EU.

- b. Is it the intention of the IAASB to avoid using the word “would” in future and to prefer the use of the present tense throughout the grey text? This would simplify the understanding of the intention of the standard setters but could also have consequences on the degree of obligation involved. Some clarification would be welcomed, especially because subtle distinctions of the English language usually cause difficulties to translators.
- c. Paragraph 8 uses the word “examination”. We suggest replacing this term by the word “engagement”. The term examination should not be used in this sense in standards or other pronouncements because it does not refer to a kind of engagement.
- d. It is unclear what purpose is served by the historical account of the codification project in paragraphs 3 and 4 with its reference to a “current” codified structure which will be superseded by the proposed Preface.

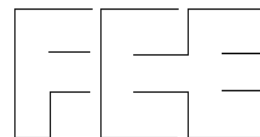
3. Comments related to structure and translations

3.1. IAASB is particularly seeking comment on whether the restructuring of the Handbook is understandable and effective

- a. The proposed new structure is understandable but the proliferation of new abbreviations will not be easy to explain to users, regulators and practitioners. It is also unclear how IAASB Operations Policies fit in the new structure.
- b. The draft combines into one category of ISAs “Audit and Review of Historic Financial Statements”. The IAASB’s objectives are difficult to understand when reading the explanation in paragraph 5 (b) of the Invitation to Comment. In particular, some clarification is needed on the concept of “review”. How can reviewers be properly understood by external users when reporting “We have conducted our review, which is not an audit, in accordance with International Standards on Auditing”? FEE believes that it would be preferable to have a special category of standards for review engagements. We also consider that, in general, the IAASB should refer to “historical” rather than “historic” financial statements and information.
- c. Considering the ISQCs, we understand that the decision is the consequence of the Board’s decision to split quality control issues related to audit firms and to specific engagements. This raises two questions:
 - How many ISQCs does the IAASB expect to develop and if, as we expect the number is fairly limited, is it really a good idea to establish a separate category of standards?
 - Making a separate category of ISQCs involves dealing with quality control in ISA 200 as with ethical principles (paragraph 4); in other words IAASB should explicitly mention as a general principle of an audit that the auditor should comply with ISQCs and refer to that compliance in the audit report.

3.2. IAASB is particularly seeking comment on whether there are any terms, phrases, or concepts in the Preface that would be particularly difficult to translate into other languages or that might be ambiguous when translated

- a. An ideal translation of the word “assurance” is difficult in every language.
- b. Whilst we do not have any suggestion for dealing with assurance, it does highlight the need for the IAASB to consider translation issues as an integral part of its future work, for example by maintaining a glossary of terms and by avoiding the use of different English terms where there is no clear intention to convey different meanings.



We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,

David Devlin
President