

**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**



This Exposure Draft of the Board of the International Federation of Accountants (IFAC) and the International Auditing and Assurance Standards Board (IAASB) was approved for publication in November 2002. The exposure draft may be modified in the light of comments received before being issued.

**Comments should be submitted so as to be received by February 28, 2003**, preferably by e-mail, or on a computer disk or in writing. All comments will be considered a matter of public record and will be posted on IFAC's website by March 7, 2003.

Comments the IAASB's Terms of Reference should be addressed to the IFAC Chief Executive and should be sent to:

**International Federation of Accountants  
535 Fifth Avenue, 26<sup>th</sup> Floor  
New York, New York 10017 USA**

**E-mail responses should be sent to: [EDComments@ifac.org](mailto:EDComments@ifac.org)**

Comments on the remainder of the document should be addressed to the Technical Director of IAASB and sent to:

**International Federation of Accountants  
535 Fifth Avenue, 26<sup>th</sup> Floor  
New York, New York 10017 USA**

**E-mail responses should be sent to: [EDComments@ifac.org](mailto:EDComments@ifac.org)**

The approved text of this Exposure Draft of the Board of the International Federation of Accountants and the International Auditing and Assurance Standards Board is published in the English language.

In order to achieve maximum exposure and feedback, IFAC encourages the reproduction of this publication in any format.

Copyright © November 2002 by the International Federation of Accountants.  
All rights reserved.

## TABLE OF CONTENTS

---

	Page
Invitation to Comment .....	1
Terms of Reference .....	4
Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services .....	5
Operations Policy No 1—Bold Type Lettering .....	11

---

## Invitation to Comment

1. The mission of the International Federation of Accountants (IFAC), as set out in its constitution, is “the worldwide development and enhancement of an accountancy profession with harmonized standards, able to provide services of consistently high quality in the public interest.” As part of the mission, IFAC established the International Auditing Practices Committee (IAPC) .In January 2001, the leadership of IFAC agreed that to institute a comprehensive review of the membership, organization and processes of the IAPC. It therefore established the IAPC Review Task Force to make recommendations to ensure that the IAPC meets requirements of regulators and other external observers in terms of its efficiency, transparency and credibility as the recognized international auditing standard setter. The report of the IAPC Review Task force, published in November 2001, made many recommendations for improving the operations of the IAPC and for enhancing the public interest oversight. Among these recommendations were changes to the name (to the International Auditing and Assurance Standards Board), changes to its terms of reference, changes to the composition of its membership and a request for greater clarity and transparency about its operating procedures and the status of its pronouncements.
2. The IFAC Board has established the International Auditing and Assurance Standards Board (IAASB) to develop and issue, on its behalf, standards and statements on auditing, assurance and related services, and quality control standards for use around the world. The IFAC Board has the responsibility for appointment of members to the IAASB (on the recommendations of the Nominating Committee of IFAC) and is charged with ensuring that the IAASB’s activities are consistent with the overall objectives of IFAC. In November 2002 the IFAC Board approved for exposure for public comment revised terms of reference for the IAASB. This document is included in this material.
3. The IAASB believes that it is important that those with an interest in the setting of international standards for audit, other assurance engagements and related services are able to comment at an early stage on how the IAASB intends to operate. This will help ensure that the IAASB is able to operate in the public interest as effectively as possible.
4. The creation of the IAASB provides an opportunity to focus the structure of the Handbook of Auditing and Assurance Pronouncements to best accommodate current and future documents. When the IAPC was first established, the documents it prepared dealt only with the audit of historic financial statements. Over time the IAPC has added to the subject matters on which it produces documents and to the types of documents it produces. Current and future documents are likely to fall into the following categories:
  - Standards for quality control;
  - Standards for audits of historic financial statements;
  - Standards for reviews of historic financial statements;
  - Standards for assurance engagements on specific subject matters other than historic financial statements;
  - Standards on generic assurance topics such as evidence and documentation;
  - Standards for related services (compilation and agreed-upon procedures); and
  - Practice statements as necessary for each of the above.

5. The IAASB is seeking comment on its intention to restructure the Auditing and Assurance Handbook. The new structure is depicted in the diagram in the revised version of the Preface to the IAASB's pronouncements. The revised structure would include four separate sections covering the following.
  - (a) Quality control. The documents in this section would be called International Standards on Quality Control (ISQCs). This section would address firm-wide quality control issues while ISAs and ISAEs will address engagement specific quality control matters.
  - (b) Audits and reviews of historic financial information. The documents in this section would continue to be called International Standards on Auditing (ISAs) and International Auditing Practice Statements (IAPSSs). This section would contain an umbrella Standard ISA 100 (comprising a merged and revised ISA 120, "Framework of International Standards on Auditing" and ISA 200, "Objective and General Principles Governing an Audit of Financial Statements"), the current ISAs 210 to 799, ISA 910, "Engagements to Review Financial Statements", and all the current IAPSSs.
  - (c) Assurance engagements on other subject matters. The documents in this section would be called International Standards on Assurance Engagements (ISAEs), and in time, if needed, International Assurance Engagement Practice Statements (IAEPSs) could be added. This section would contain an umbrella Standard ISAE 2000 (comprising a revision of paragraphs 31–74 of the current ISA 100, "Assurance Engagements"), ISAEs as needed on topics such as the use of experts, and on particular subject matters such as internal control, sustainability reports and prospective financial information (ISA 810, "The Examination of Prospective Financial Information" would be re-designated as an ISAE).
  - (d) Related services. The documents in this section would be called International Standards on Related Services (ISRSs), and over time, if needed, International Related Services Practice Statements (IRSPSSs) could be added. This section would contain, relatively unchanged but re-designated as ISRSs, the current ISA 920, "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" and ISA 930, "Engagements to Compile Financial Information." Further documents may be added over time.

In addition, a framework document covering all assurance engagements will sit above sections (b) and (c) as described above. This framework would be comprised of a revision of paragraphs 1–30 of the current ISA 100, "Assurance Engagements."

6. The IAPC operated a policy whereby particular sentences in its standards were highlighted by printing them in bold type. This is often referred to as black lettering. The sentences so printed were those sentences that established basic principles or essential procedures. The IAASB intends to continue this policy, but believes that it is important that the use of black lettering is understood by its constituents.
7. Accordingly, alongside the Terms of Reference, the IAASB is exposing for public comment the following documents.
  - (a) A revised Preface to International Standards on Quality Control, Auditing, Assurance and Related Services, which sets out the authority of the pronouncements that the IAASB intends to issue.
  - (b) An operating policy document that deals with the IAASB's use of bold type lettering.

## Invitation to Comment

When issued the three documents contained in this exposure release will replace the existing Terms of Reference and Preface to ISAs and Related Services that appear in the IFAC Handbook of Auditing Pronouncements.

8. In responding to the exposure draft, commentators are requested to refer to specific paragraphs within each section, include reasons for comments and make specific suggestions on any proposed wording amendments. While comments are sought on all matters addressed in the exposure draft, the IAASB is particularly seeking comment on the following issues:
  - (a) Whether the Terms of Reference appropriately reflect the IAASB's role as the international audit and assurance standard setter;
  - (b) Whether the Terms of Reference and Preface, when taken together, address all relevant matters;
  - (c) Whether there is general support for retaining the distinction between bold and ordinary lettering;
  - (d) Whether the restructuring of the Handbook is understandable and effective; and
  - (e) 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?

The IFAC Board and IAASB looks forward to receiving comments on the exposure release from any interested parties. These should be submitted in writing so as to be received by **February 28, 2003**. All comments received are a matter of public record and will be posted on IFAC's web site by March 7, 2003.

## **Terms of Reference**

The objective of the International Auditing and Assurance Standards Board (IAASB), on behalf of the IFAC Board, is to improve auditing and assurance standards and the quality and uniformity of practice throughout the world, thereby strengthening public confidence in the global auditing profession and serving the public interest, by:

- Establishing auditing standards and guidance for financial statement audits of such high quality that they are acceptable to investors, auditors, governments, banking regulators, securities regulators and other key stakeholders across the world.
- Establishing high quality standards and guidance for other types of assurance services on both financial and non-financial matters.
- Establishing standards and guidance for other related services.
- Establishing quality control standards covering the scope of services addressed by the Board.
- Publishing other papers on auditing and assurance matters, thereby advancing the public understanding of the roles and responsibility of professional auditors and assurance service providers.

The IAASB issues “International Standards on Auditing” (ISA) as the standards to be applied in reporting on the credibility of historic financial information. It also issues International Standards on Assurance Engagements (ISAE) Quality Control (ISQC) and Related Services (ISRS) as it considers appropriate.

The IAASB issues Practice Statements as appropriate to provide practical assistances in implementing its standards and to promote good practice.

The IAASB cooperates with national standard-setters to link their work with IAASB’s own in preparing and issuing standards. It also promotes the endorsement of ISAs by legislators and securities exchanges and promotes debate with users, regulators and practitioners throughout the world to identify user needs for new standards and guidance.

Each member of the IAASB has one vote. The 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 standards.

IAASB meetings to discuss the development of standards, guidance or other papers are open to the public. Agenda papers are published on the IFAC web site.

IAASB publishes an annual report, outlining its work program and activities during the year.

IFAC will review the effectiveness of IAASB’s processes at least every three years.

**Preface to the International Standards on Quality Control, Auditing,  
Assurance and Related Services**  
**CONTENTS**

---

	Paragraphs
Introduction .....	1–3
The International Auditing and Assurance Standards Board .....	4–7
The Authority Attaching to Standards Issued by the International Auditing and Assurance Standards Board .....	8–16
The Authority Attaching to Practice Statements Issued by the International Auditing and Assurance Standards Board .....	17–19
Discussion Papers .....	20
Working Procedures .....	21–25
Language .....	26
Appendix: Structure of the IAASB’s Technical Pronouncements	

---



## **Introduction**

1. This preface to the International Standards on Quality Control, Auditing, Assurance, and Related Services is issued to facilitate understanding of the objectives and operating procedures of the International Auditing and Assurance Standards Board (IAASB) and the scope and authority of the pronouncements it issues.
2. The mission of the International Federation of Accountants (IFAC), as set out in its constitution, is “the worldwide development and enhancement of an accountancy profession with harmonized standards, able to provide services of consistently high quality in the public interest.” In pursuing this mission, the IFAC Board has established the IAASB to develop and issue, on its behalf, standards and statements on auditing, assurance and related services, and quality control standards for use around the world.
3. The IAASB’s pronouncements govern assurance and related services that are conducted in accordance with International Standards. They do not override the local laws or regulations that govern the audit of historic financial statements or assurance engagements on other information in a particular country required to be followed in accordance with that country’s national standards. In the event that local laws or regulations differ from, or conflict with, the IAASB’s Standards on a particular subject, an engagement conducted in accordance with local laws or regulations will not automatically comply with the IAASB’s pronouncements. In these circumstances, member bodies should comply with the obligations of membership set forth in IFAC’s Constitution as regards the IAASB’s pronouncements.<sup>1</sup>

## **The International Auditing and Assurance Standards Board**

4. The IAASB is a standing committee of IFAC.
5. The members of the IAASB are appointed by the IFAC Board to serve on the IAASB. The IAASB comprises eighteen members, ten of whom are put forward by member bodies of IFAC, five of whom are put forward by the Forum of Firms, and three public members who may be members of IFAC member bodies but shall not be members in public practice. Candidates for appointment as public members may be put forward by any individual or organization for consideration by IFAC’s Nominating Committee. IAASB members are expected to act in the common interest of the public at large and the worldwide accountancy profession. This could result in their taking a position on a matter that is not in accordance with current practice in their country or not in accordance with the position taken by those who put them forward for membership of the IAASB. Members who absent themselves from two meetings in any twelve month period may be required to resign from the IAASB.
6. The IAASB may appoint task forces to assist it in the development of materials. These task

---

<sup>1</sup> The IFAC constitution states that “Member bodies shall . . . support the work of IFAC by bringing to the notice of their members every pronouncement developed by IFAC and by using their best endeavors:

- (i) to work towards implementation, when and to the extent possible under local circumstances, of those pronouncements, and
- (ii) specifically to incorporate in their national auditing standards the principles on which are based International Standards on Auditing developed by IFAC...”

forces may include individuals who are not members of the IAASB and information may be sought from other organizations so as to obtain a broad spectrum of views.

7. IAASB meetings to discuss the development of Standards, guidance or other papers are open to the public. Agenda papers are published on the IAASB web site.

**The Authority Attaching to Standards issued by the International Auditing and Assurance Standards Board**

8. International Standards on Assurance Engagements (ISAEs) are to be applied in assurance engagements dealing with information other than historic financial information.
9. International Standards on Auditing (ISAs) are to be applied in the audit or review of historic financial information.
10. International Standards on Related Services (ISRSs) are to be applied to compilation engagements, engagements to apply agreed upon procedures to information, and other non-assurance services.
11. ISAEs, ISAs and ISRSs are collectively referred to as the IAASB's Engagement Standards.
12. International Standards on Quality Control (ISQCs) are to be applied by those providing services falling under the IAASB's Engagement Standards.
13. The IAASB's Standards contain basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material. The basic principles and essential procedures are to be understood and applied in the context of the explanatory and other material that provide guidance for their application. It is therefore necessary to consider the whole text of a Standard to understand and apply the basic principles and essential procedures. This includes the explanatory and other material contained in the Standard, not just the text that is black lettered.
14. The nature of Standards issued by the IAASB requires professional accountants to exercise professional judgment in applying them. In extremely rare circumstances, a professional accountant may 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.
15. Any limitation of the applicability of a specific Standard is made clear in the introductory paragraphs to that Standard.
16. In circumstances where specific Standards or guidance contained in a Standard are not applicable in a public sector environment, or when additional guidance is appropriate in such an environment, IFAC's Public Sector Committee so states in a Public Sector Perspective (PSP). When no PSP is added, the Standard is to be applied to engagements in the public sector.

**The Authority Attaching to Practice Statements issued by the International Auditing and Assurance Standards Board**

17. International Assurance Engagement Practice Statements (IAEPSs) are issued to provide practical assistance to professional accountants in implementing ISAEs and to promote good practice.
18. International Auditing Practice Statements (IAPSs) are issued to provide practical assistance to professional accountants in implementing ISAs and to promote good practice.
19. Professional accountants should be aware of and consider practice statements applicable to the engagement. A professional accountant who does not apply the guidance included in an applicable practice statement should be prepared to explain how the requirements in the Standards addressed by the practice statement have been complied with.

**Discussion Papers**

20. Discussion Papers are issued to promote discussion or debate on auditing and assurance issues affecting the accounting profession, present findings, or describe matters of interest relating to auditing and assurance issues affecting the accounting profession. They do not establish any requirements to be followed in audits or other assurance engagements.

**Working Procedures**

STANDARDS AND STATEMENTS

21. For Standards and Statements, project proposals are developed and approved by the IAASB. As part of this process, input is sought, where practicable, from the Consultative Advisory Group, national standard setters and others. After approval, the IAASB's working procedure is to select subjects for detailed study by a task force established for that purpose. The task force will ordinarily be chaired by a member of the IAASB and may contain members who are not members of the IAASB. The task force has the initial responsibility for the preparation and drafting of Standards and Statements. The task force develops its positions using any available resources. This may include commissioning research, consulting with practitioners, regulators and other interested parties, as well as reviewing professional pronouncements issued by IFAC member bodies and other parties. The task force prepares an exposure draft for the IAASB to review and debate. When approved, the exposure draft is placed on the IAASB's web site and is widely distributed for comment by member bodies of IFAC, organizations that have an interest in auditing and assurance standards and the general public. Adequate time is allowed for each exposure draft to be considered by the persons and organizations to whom it is sent for comment and the exposure period will ordinarily be no shorter than 90 days. The IAASB will ordinarily expose a Practice Statement for comment unless it decides that there are particular circumstances justifying non-exposure.
22. The comments and suggestions received as a result of this exposure are considered and the exposure draft is revised as appropriate. When the revised draft is approved, it is issued as a definitive Standard or Practice Statement. If the changes made after exposure are substantial, the IAASB will consider the need to reexpose the document for comment. The IAASB will set an effective date for the application of its Standards; Practice Statements will be effective from the date they are issued.

OTHER PRONOUNCEMENTS

23. For Discussion Papers, the IAASB Chair will appoint a review group of 4 IAASB members to consider whether a draft paper has sufficient merit to be added to the IAASB's assurance and auditing literature. The draft paper may come from any source and the IAASB need not have specifically commissioned it. If the review group believes that the paper has sufficient merit it recommends to the IAASB that the paper be issued and added to its literature. If the IAASB approves the paper, it is issued as a discussion paper.

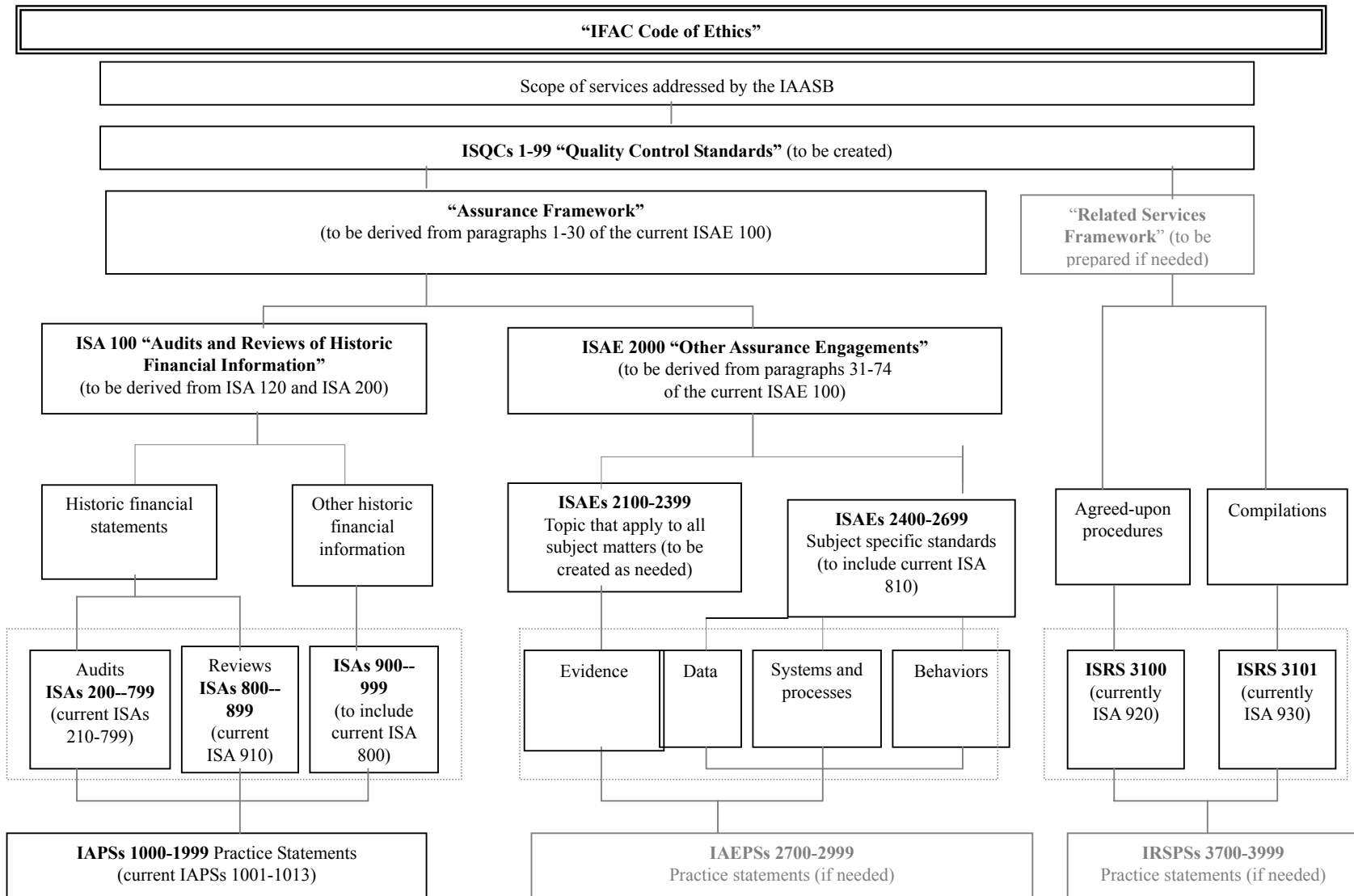
VOTING

24. The affirmative votes of at least two thirds of the members present at a meeting in person or by proxy or by simultaneous telecommunications link, but not less than twelve, is required to approve exposure drafts, Standards and Statements. Discussion Papers require the approval of a majority of the members so present. Dissenting opinions will not be included in the exposure drafts or pronouncements issued by the Board but will be included in the minutes of the meeting at the request of the dissenting member or members.
25. Each member of the IAASB has the right to one vote. A member has the right to appoint a proxy in writing. The proxy may be the member's technical adviser or another IAASB member.

**Language**

26. The approved text of an exposure draft, Standard, Practice Statement or Discussion Paper is that published by IFAC in the English language.

Structure of the IAASB's Technical Pronouncements



# Operations Policy No 1—Bold Type Lettering

Issued XXXX

## Purpose

1. The purpose of this Policy Document is to outline the International Auditing and Assurance Standards Board's (IAASB) process of using bold type lettering (referred to in this Policy Document as "black lettering") to highlight basic principles and essential procedures.

## Meaning

2. "Black lettering" is the colloquial term used for the process by which the IAASB:
  - *in developing a Standard*: determines what are the basic principles and essential procedures relevant to the topic of the Standard, and then
  - *in publishing a Standard*: distinguishes sentences that contain these basic principles and essential procedures from the accompanying explanatory text by:
    - using the word "should" only in those sentences, and
    - setting those sentences in bold type (thus the term "black lettering").

## Codification

3. Black lettering was first introduced to the literature of International Auditing Standards as part of the Codification project in the early 1990s.
4. The Codification project went well beyond simply codifying the then existing documents into a revised structure. As part of the project, the International Auditing Practices Committee (IAPC) reviewed all its authoritative documents, then comprising International Auditing Guidelines and International Statements on Auditing, and:
  - revised and updated the technical content,
  - identified the basic principles and essential procedures within the new documents,
  - categorized and renumbered those documents into their current codified structure (previously they had been simply numbered sequentially as they were produced), and
  - importantly, enhanced the authority of their documents, issuing the codified International Auditing *Guidelines* as International *Standards* on Auditing.

## Authority

5. The IAASB's Standards contain basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material. The basic principles and essential procedures are to be understood and applied in the context of the explanatory and other material that provide guidance for their application. It is therefore necessary to consider the whole text of a Standard to understand and apply the basic principles and essential procedures. This includes the explanatory and other material contained in the Standard, not just the text that is black lettered.

6. The explanatory and other material, while not specifically designated as containing basic principles and essential procedures, is still essential, as is clear from the authority statement published at the beginning of each Standard. The black lettered sentences must be read in the context of the explanatory and other material before those sentences can be properly understood, interpreted and applied. Therefore, for example, for an audit of financial statements to be conducted in accordance with ISAs, it is necessary to apply the black lettered requirements in the context of the entirety of the ISAs.<sup>2</sup> For this reason, the black lettered requirements are not gathered together at the beginning of a Standard, nor are they ever published separately by IFAC.
7. Although the black lettered sentences are sometimes referred to as standards (small “s”), it is actually the whole of an ISA or ISAE that is properly known as a Standard (capital “S”), and the entire sequence of ISAs and ISAEs that are properly known as Standards. Referring to the black lettered sentences as standards is not appropriate because that might tend to imply, erroneously, that the black lettering can be treated as “stand alone”, *i. e.* that it can be read in isolation from the explanatory material.

#### **What is in the Black Lettered Sentences?**

8. The black lettered sentences comprise:
  - The basic principles of the relevant service. In the case of financial statements audits, the basic principles dictate the underlying preconditions that set an audit apart from other forms of examination, and
  - The essential procedures, *i.e.* those procedures that should be applied in all circumstances.
9. The basic principles have not been separated from the essential procedures in the text, and in some cases a black lettered sentence may be a mix of both. However, both are considered equally important and therefore separate consideration of them is unnecessary. While black lettered sentences ordinarily contain a “should” statement, and “should” is not used except in black lettered sentences, when a black lettered sentence expresses a basic principle (as opposed to an essential procedure) it does not necessarily include a “should” statement.
10. Using “should” imposes an obligation on the professional accountant to do whatever the sentence in which it is used requires. Unless a condition on the obligation is specified in the sentence (for example, “the professional accountant should do X unless Y”), the obligation is unconditional, although it is of course subject to relevance and materiality of the subject matter, *i.e.* it is not necessary to do what the sentence says if, in the circumstances, it is not relevant or not material. Use of the term “should consider” imposes an unconditional obligation on professional accountants to specifically apply their mind to a stated matter and then use professional judgment to determine an appropriate course of action.

#### **What is in the Explanatory and Other Material?**

11. The black lettered requirements are supported by the explanatory and other material. The

---

<sup>2</sup> In extremely rare circumstances, an auditor may judge it necessary to depart from an ISA to more effectively achieve the objective of the engagement. When such a situation arises, the auditor must be prepared to justify the departure.

explanatory and other material provides guidance on how to interpret and apply the black lettered requirements. The explanatory and other material does not establish any new basic principles or essential procedures and does not, of course, contradict the black lettered requirements. The IAASB does not use the word “should” in drafting the explanatory and other material, which is ordinarily written in the simple present tense.

12. The explanatory and other material includes a range of materials, such as elaboration on particular facets of a basic principle, examples of possible procedures that could be undertaken in particular circumstances, material to help with understanding the application of a basic principle to a complex situation, points of finer detail, background material, factors to consider, formats that might be helpful, *etc.*
13. Engagements to which the IAASB’s Standards apply require the exercise of professional judgment. The explanatory and other material assists the professional accountant in exercising that judgment. For example, in some ISAs the explanatory and other material lists detailed procedures that might be appropriate in carrying out a black lettered requirement. The professional judgment of the auditor will determine whether any or all of those detailed procedures are appropriate to obtain sufficient appropriate audit evidence in the particular circumstances. Indeed, there may be other detailed procedures that are not listed in the ISAs that would provide the evidence needed by the auditor more effectively. No set of Standards can hope to anticipate all the details of all scenarios.