



Organización Internacional de Comisiones de Valores  
International Organisation of Securities Commissions  
Organisation internationale des commissions de valeurs  
Organizaç o Internacional das Comiss es de Valore

August 4, 2005

Mr. James Sylph

Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York 10017

Email [Edcomments@ifac.org](mailto:Edcomments@ifac.org)

Re: Exposure Draft of Proposed International Standard on Auditing 260 (Revised), "The Auditor's Communication with Those Charged with Governance"

Dear Mr. Sylph:

IOSCO's Standing Committee No. 1 on Multinational Disclosure and Accounting appreciates the opportunity to comment on the above-mentioned Exposure Draft.

As securities regulators representing the public interest, we are committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing, and professional standards. Our comments in this letter reflect those matters on which we have achieved a consensus among members of Standing Committee No. 1 and are not intended to include all comments that might be provided by individual members on behalf of their respective jurisdictions.

We believe the proposed revision to the existing standard will help to bring greater clarity to the required communications between auditors and those charged with governance, but we also believe further improvement is needed. Matters that we believe should be further addressed are as follows:

*Communication of findings from the audit*

We suggest that the IAASB further clarify its use of the word "trivial" (paragraphs 32(c) and 37) in describing what types of uncorrected misstatements need not be communicated to those charged with governance. Further clarifying the term "trivial" by inserting a footnote, similar to that in the ED of ISA 320 (Revised), will help eliminate any misinterpretation of the proposed rule. Please consider inserting the following footnote: "Matters which are "clearly trivial" will be of a wholly different (smaller) order of magnitude than the materiality levels used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. Further, whenever there is any uncertainty about whether one or more

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items are “clearly trivial” (in accordance with this definition), the auditor presumes that the matter is not “clearly trivial.”

#### *The importance of two-way communication*

The proposed standard needs to place greater emphasis upon the importance of two-way communication between the auditor and those charged with governance. We support the principle set forth in paragraph 65 of the ED that the auditor should evaluate the adequacy of the two-way communication between the auditor and those charged with governance. In our view, however, the proposed standard should make it clearer that the expectation of two-way communication should be established early in the audit planning process. Further, we believe that in order for the auditor to truly assess the adequacy of the audit strategy, the auditor should make inquiries of those charged with governance regarding information such as whether or not those charged with governance are aware of any instances of fraud or aware of any relationships that may impair the auditor’s independence. In circumstances where the auditor reports a significant matter to those charged with governance, the auditor should also solicit the reactions of those individuals. If it is not possible to establish proper communications with those charged with governance, then it is unlikely that matters will be communicated such as the scope and timing of the audit.

#### *Consider communications on independence issues including interactions with other parties*

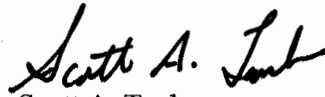
We note that there is no mention of the auditor’s responsibility to report to those charged with governance any communications with external specialists, legal counsel, or other auditors. We believe that the standard should include a requirement that interactions with such outside parties should be communicated to those charged with governance, in order to make those individuals aware of potentially significant matters within the company, which required the auditor to engage an outside party, and to ensure that there are not any relationships that would affect the independence of the auditor through using those parties. The auditor should inform those charged with governance of the individuals, firms, or counsel that were engaged, following the actions, so that those charged with governance may confirm that none of these parties have relationships with those charged with governance that would impair the auditor’s independence. By informing those charged with governance when outside parties were engaged, those charged with governance would have the opportunity to recognize any relationships with the outside parties that could potentially impair the auditor’s independence, before the audit is completed.

#### *Outlining scope of services*

Paragraphs 27-31 of the proposed standard outlines the auditor’s responsibility in communicating the nature, timing, and extent of audit procedures to those charged with governance. We suggest that the Board consider including language in this ISA which would encourage auditors and those charged with governance to confirm their understanding of the nature, timing, and extent of the audit in the form of an engagement letter. Documenting, in an engagement letter or other suitable form of contract as noted in paragraph 2 of ISA 210, the nature and objectives of the engagement and the auditor’s overall audit plan, scope and timing can help eliminate any misunderstandings between the auditor and those charged with governance as to what procedures the auditor will perform. We caution, however, that any communication of the audit plan should not be so detailed that the auditor’s work would begin to gain a sense of predictability.

**Other detailed comments are shown in the attachment to this letter.**

Thank you for the opportunity to comment on this ED. If you have any questions or need additional information regarding the comments of Standing Committee No. 1, please do not hesitate to contact me or Susan Koski-Grafer at (202) 551-5349.

A handwritten signature in black ink that reads "Scott A. Taub". The signature is written in a cursive style with a large, stylized "S" and "T".

Scott A. Taub  
Chairman,  
IOSCO Standing Committee No, 1

ATTACHMENT – additional detailed comments

Paragraph 7 (Footnote 3) – The footnote is missing text. Revise to read “...including the related notes, has been prepared **in accordance with the financial reporting framework.**”

Paragraph 22 (a) – Revise to read “The auditor’s responsibilities **and the nature of the financial statement audit.**”

Paragraph 25 (first bullet point) – Revise to read “The auditor is responsible for **conducting the audit in accordance with ISAs, which includes communicating to those charged with governance significant matters arising from the audit of the financial statements that are relevant to the financial reporting and disclosure process.**”

Paragraph 25 (second bullet point) – Revise to read “ISAs do not require the auditor to design procedures **that are outside the purpose of the financial statement audit, however, during the course of the audit,** the auditor will communicate other matters of which the auditor becomes aware that are, in the auditor’s professional judgment, serious and relevant to the responsibilities of those charged with governance.”

Paragraph 25 (third bullet point) – Remove this bullet point as this information is explained with more clarity in paragraph 26.

Paragraph 27 – While we understand the purpose of this paragraph, we believe it is inappropriate to imply that management is adding to or dictating what the auditor does. Consequently, we would suggest removing this paragraph.

Paragraph 34 – We suggest that the first sentence be removed as it gives the impression that the auditor is able to pick and choose accounting practices. The second sentence should be revised to read “**Financial reporting frameworks allow for the entity to make...**”

Paragraph 35 – We suggest that this paragraph clearly state that the auditor should first discuss any inappropriate accounting practices with management before communicating such practices to those charged with governance.

Paragraph 41 – The phrase “other corrected misstatements” is unclear and should be clarified. There is no first mention of misstatements in the paragraph.

Paragraph 46 – Revise to read “The auditor should communicate to those charged with governance **matters involving senior management** of which the auditor is aware that, in the auditor’s professional judgment, are **significant** and relevant to the responsibilities of those charged with governance.” The word “serious” as used in the ED is not common and may be misinterpreted.

Paragraph 56 – We suggest that this paragraph be divided into two separate paragraphs, with the second paragraph beginning with “Where matters relevant...” We further suggest that the Board clarify in what minutes the communications with those charged with governance should be recorded (i.e. board minutes, auditor’s minutes, etc.). The last sentence in this paragraph should be revised to read “.....of the discussion **and** the audit working papers.”

Paragraph 59 – The word “ordinarily” is subject to interpretation. Revise to read “...the chair of an audit committee, the auditor **should** summarize the matter...”

Paragraph 67 – The phrase “adequate for an effective audit” seems unclear and should be clarified.