



Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaçào Internacional das Comissões de Valore

May 10, 2007

Mr. James M. Sylph
Executive Director, Professional Standards
International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Email Edcomments@ifac.org

Re: Proposed Redrafted International Standard on Auditing 260 (Revised), *Communication with Those Charged with Governance*

Dear Mr. Sylph:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (SC 1) appreciates the opportunity to comment on the Exposure Draft of proposed redrafted international standard on auditing ISA 260, *Communication with Those Charged with Governance* (the ED). As an international organization of securities regulators representing the public interest, IOSCO SC 1 is committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing, and professional standards.

Members of SC 1 seek to further IOSCO's mission through thoughtful consideration of accounting, auditing and disclosure concerns and pursuit of improved global financial reporting.

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As we review proposed auditing standards, our concerns focus on whether the standards are sufficient in scope and adequately cover all relevant aspects of the area of audit being addressed, whether the standards are clear and understandable, and whether the standards are written in such a way as to be enforceable. Our comments in this letter reflect those matters on which we have achieved a consensus among the members of SC 1; however, they 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 ED has the potential to bring greater clarity to the required communications between auditors and those charged with governance, but there are a number of areas where we believe further improvement is needed. We have organized our comments in this letter by including our most significant general comments and responses to questions in the ED in the main body of this letter. In addition, the Appendix to this letter contains some detailed comments for editing and clarification.

General Comments

Matters to be Communicated

Paragraph 12 states that communications regarding the auditor's responsibilities in relation to the financial statement audit are "...often included in the engagement letter or other form of contract that record the agreed terms of the engagement." This statement does not seem to sufficiently emphasize the importance of confirming in writing (or in an engagement letter as suggested in the IOSCO comment letter dated August 4, 2005) the understanding of the auditor and those charged with governance of the nature, timing, and extent of the audit. Accordingly, we suggest enhancing this sentence to read "Auditors are encouraged to include these communications in an engagement letter or other form of contract that records the agreed terms of the engagement."

We recognize that incorporating in the Requirements section a reference to every communication requirement as listed in Appendix 1 may not be viable, but believe a cross reference to Appendix 1 should be included to draw attention to those matters listed. In order to clearly communicate the auditor's responsibility in regard to the ISAs listed in Appendix 1, we recommend the addition of a requirement such as "the auditor shall determine whether there are additional matters to be communicated with those charged with governance, as required in other ISAs and/or listed in Appendix 1. These and other matters, if any, arising from the audit that are, in the auditor's professional judgment, significant to the audit or to the oversight of the financial reporting process, should be communicated to those charged with governance.

The Communication Process - Forms of Communication

We propose that the last sentence of paragraph 17 be changed to read "All important matters that arose during the course of the audit should be contained in a written form of communication that is provided to those charged with governance. Such communications should be in addition to the information in the auditor's report that is prepared in accordance with ISAs." We feel that this change is necessary so that there will be a greater presumption of written communication about

significant findings and yet allow the auditors not to provide written communication if matters are deemed unimportant by the auditor.

Application and Other Explanatory Material

Paragraph A3 states that “The auditor is not, however, required to perform procedures specifically to identify other significant matters...” It is unclear what is meant by the phrase “other significant matters.” We assume that the phrase “other significant matters” refers to “non-financial reporting matters.” If not, it is unclear why the auditor would not be required to perform procedures specifically to identify “other significant matters” relevant to financial reporting. We suggest that the phrase “other significant matters” be replaced with “non-financial reporting matters” or that it be further clarified.

Reponses to Specific Questions in the Exposure Draft

- 1. Is the objective to be achieved by the auditor, stated in the proposed redrafted ISA, appropriate?*

The objective stated in the ED seems to be set at the level of procedural requirements rather than an overall outcome-oriented objective. Also, the purpose of the reference made from the objective to specific paragraphs in the Application Material is unclear. It is our understanding that each objective should stand on its own. If some of the content in these Application Material paragraphs is needed to make the understanding of the objective clear, perhaps one or more sentences might be added into the statement of the objective.

Our comments on objectives in individual ISAs are made against a backdrop of concern about the recent change to the Preface to the ISAs. Paragraph 15 of the Preface now states that an auditor ‘aims to achieve these objectives’. Saying that an auditor aims to achieve objectives in individual ISAs can be read as implying that such objectives merely indicate the direction of the auditor’s work – there is no sense, no emphasis that an auditor should make every effort to achieve the objectives. The Preface should use words that clearly impart a sense of striving to achieve objectives and convey that there is a strong obligation to achieve the objectives in all the relevant individual ISAs. Using terminology such as “aims to” achieve all objectives conveys a message, intentionally or not, that the obligation on the auditor to achieve the objectives has weakened. If the objectives in individual ISAs do not carry a very high level of obligation, what is to prevent auditors from considering them optional so long as the auditor believes he or she has achieved the overall objective of the auditor?

We understand that there may be situations where an auditor cannot meet a particular ISA objective, and we recognize that paragraph 15 in the Preface now directs the auditor to evaluate whether the effect of not meeting an individual ISA objective prevents the auditor from meeting the overall objective of the auditor. We also are aware of the ISA 200 provisions that if the auditor concludes that the overall objective has not been achieved or cannot be achieved, the auditor must modify the auditor’s opinion accordingly or withdraw from the engagement.

With the requirement in place for an auditor to evaluate whether the inability to meet an individual ISA objective prevents the auditor from achieving the auditor's overall objective, it does not seem necessary also to make a general statement that the auditor 'aims to achieve' the objectives.

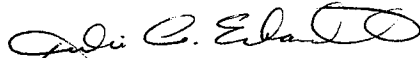
As it is the objectives in individual ISAs that drive the requirements and also the need for the auditor to "stand back" and evaluate whether sufficient evidence has been obtained, a high level of obligation to meet the objectives is very important. We ask the Board to address this issue with further work on the formulation and wording of specific objectives and the nature of the general obligation associated with them.

- 2. Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and the use of professional judgment by auditors?*

Please refer to the Appendix for specific areas of our concerns and related comments.

Thank you for the opportunity to comment on this ED. If you have any questions or need additional information regarding this comment letter, you may contact me at 202-551-5300, or contact any member of SC 1's Auditing Subcommittee.

Sincerely,



Julie A. Erhardt

Chair

IOSCO Standing Committee No. 1

Editing and Clarification Comments

General

The inclusion of statements in the requirements section that appear to be guidance (i.e., statements that include the words “may” or that are written in the present tense) make it unclear as to the authority of, and obligation attaching to, such statements. For example, refer to paragraph 9 which states “In some circumstances, the auditor may also need to communicate with the governing body”; paragraph 11 which states “Communication of these matters by management...may affect the form or timing of the auditor’s communication...”; and paragraph 12 which states “This communication is often included in the engagement letter or other form of contract that records the agreed terms of the engagement.”

General

We recommend that the objectives be written sufficiently clearly and comprehensively to stand alone without cross references to application material. Rather, the Requirements section should cross reference the Application Material section.

Paragraph 9

We suggest replacing “shall consider” with “shall determine”.

In this regard, we are not satisfied that the Board has adequately reacted to concerns expressed by IOSCO and others over the use of the term “shall consider” in ISA requirements. In nearly every case where the term “shall consider” has been used, we believe the more appropriate verb would be “determine, assess, or evaluate.” We recognize that there may be occasional instances when “shall consider” is the most appropriate term because all that is expected is for the auditor to “think about” something; however, we think such instances should be relatively infrequent.

Paragraph 46 of the Clarity Basis for Conclusions document states that “shall consider” reflects a reasonable action, “particularly when the auditor is expected to review a matter and evaluate whether it is applicable in the circumstances in order to make a judgment or decide on a course of action.” The Basis for Conclusions further states, “In some cases, an alternative phrase that communicates the same intent in a clear and unambiguous manner is not possible. The IAASB is satisfied that the changes made to the ISAs improve their clarity, and that those requirements that retain the use of ‘shall consider’ are appropriate.”

We fail to understand the justification in paragraph 46 for retaining the term “shall consider”, especially when the Board then uses then the word “evaluate” to explain the action that an auditor is expected to perform under “shall consider.” If the term “shall consider” can be explained as meaning “to evaluate”, why not just say “to evaluate”? The term “evaluate” contains a stronger and more specific sense of the action needed than “consider.”

In addition, we continue to be concerned that the term “shall consider” is a rather soft term that can have a very wide range of meanings. It can range from simply “thinking about something” to a more substantive evaluation that leads to a conscious choice or decision. We are concerned that use of the term “shall consider” in requirements of a standard is not likely to contribute to consistent understanding or practice.

Paragraph 10

We suggest replacing “consider” in the last sentence with “evaluate.”

Paragraph 11

We suggest moving this paragraph to the Application Material section as it appears to give the auditor guidance as opposed to stating a requirement.

Paragraph 13

We suggest revising this paragraph to make it clear that communication of an overview of the planned scope and timing of the audit should take place at an early stage of the audit.

Paragraph 14

We suggest that a cross reference to ISA 315 and 330 be included.

Paragraph 16

Similar to our comment on paragraph 13, the establishment of a communication process should take place before or at an early stage of the audit work.

Paragraph 20

We suggest moving this paragraph to the Application Material section as it appears to give the auditor guidance as opposed to stating a requirement. We also question using the phrase “need not” in a requirement.

Footnote 8

We suggest adding “and codes established by national standards setters and regulators” in this sentence to acknowledge that there are jurisdictions whose national code may or may not be based on the IFAC code.