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February 29, 2008

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 ISA 500, *Considering the relevance and Reliability of Audit Evidence* (ED)

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 and revised international standard on auditing ISA 500, *Considering the relevance and Reliability of Audit Evidence* (ED).

As an international organization of securities regulators representing the public interest, IOSCO 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. 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.

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Scope of this ED

While we agree with the Board's position that the auditor's responsibility to obtain sufficient and appropriate audit evidence is a fundamental audit requirement that should be included within the proposed ISA 200, we also believe that a complete discussion of both aspects of audit evidence – sufficiency and appropriateness – should appear in the Objective and Requirements in an ISA that addresses “audit evidence” such as ISA 500. Therefore we are not satisfied with the Board's rationale for omitting a requirement for obtaining “sufficient” evidence in ISA 500 thus only including an objective and requirement regarding “relevant and reliable” (i.e. appropriate) evidence in this ISA

We believe it would be more logical and useful to maintain the link between sufficiency and appropriateness of audit evidence in the ED, as the two qualities of audit evidence are so closely linked. We note that this key linkage is acknowledged in paragraph 7 of the introduction of the proposed ED, but making mention of such an important matter only in the Introduction, rather than in both the Objectives and the Requirements sections, seems inadequate.

We suggest that the Board revise the scope paragraph to state that the proposed standard explains what constitutes audit evidence in an audit of financial statements and add a reference to the linkage between the quantity and quality of audit evidence to be obtained. The ED should also deal with the auditor's responsibility to design and perform audit procedures to obtain evidence that is sufficient and appropriate, i.e. relevant and reliable, and this should be reflected in a revised title for the ED.

Documentation of evidence

We note that the ISA currently does not address the documentation of audit evidence. Whilst we appreciate that documentation is covered in many other individual ISAs, in addition to ISA 230, we believe that a key ED on audit evidence should at least make some reference to documentation and contain a cross reference to ISA 230 Documentation - for example, the standard should note that audit evidence should be appropriately documented in accordance with ISA 230.

Introduction

We note paragraph 4 in the Introduction section is referenced to paragraph A4 through A19 of the application materials. While we agree these application materials are useful information to assist auditors in selecting and performing specific audit procedures to obtain relevant and reliable audit evidence, the level of authority of paragraph 4 in the Introduction section is unclear. We suggest an ISA requirement is a more logical reference point for application material paragraphs on audit procedures.

Objective

We believe that the objective to be achieved by the auditor as stated in the ED is not appropriate. The objective should be revised to include the identification and evaluation of the various qualities of audit evidence while planning, designing and performing audit procedures to obtain sufficient as well as appropriate (relevant and reliable) audit evidence. A suggested wording could be as follows:

The objective of the auditor, when planning, designing and performing audit procedures, is to identify and evaluate the various qualities of the audit evidence to obtain audit evidence that is both sufficient and appropriate.

Requirements

We believe that paragraph 11 needs improvement in several respects. First, the key element of “performance” is missing and therefore the requirement does not fully support the objectives. “Design” of procedures is covered, as well as what to do when evidence is inconsistent or doubtful, but there is no requirement to take action – to perform – to evaluate evidence obtained.

This could be remedied by including content along the lines of the following:

‘In order to determine the relevance and reliability of audit evidence, the auditor shall evaluate:

- The source;
- The nature;
- The circumstances under which the evidence is obtained; and
- Any relevant controls over the preparation and maintenance of the evidence.’

Second, Paragraph 11 should also address both sufficiency and appropriateness of evidence and the relationship between the two. The concept of sufficiency is missing. Having a complete set of requirements would also introduce a logical point for cross referencing the important and useful information in the Application Material section.

In addition, we find two more issues with respect to Paragraph 11. In order to promote consistency in auditor application in this key aspect of audit work, we believe:

- (a) The verb should be ‘evaluate’ rather than ‘consider’ in the phrase “The auditor should consider...” and

The requirement should be rephrased in order to integrate elements of application material A23 which provide key criteria for the auditor’s appraisal of which audit procedure to use given the possible sources of evidence available i.e. the evidence’s source, nature, circumstances under which it is obtained and the controls over the evidence available.

Paragraph 13 should contain a reference to ISA 530, *Audit Sampling*, as well as the Application Material.

Paragraph 14 - this paragraph currently states that when audit evidence obtained from one source is inconsistent with that obtained from another, or when the auditor has doubts over the reliability of information to be used as audit evidence, the auditor is required to determine what modifications to or additional audit procedures are necessary to resolve the matter. While we agree with the intent of this requirement, that is, to ensure the auditor evaluates inconsistencies and other matters that may call into question the reliability of the audit evidence obtained and to modify audit procedures accordingly, we believe the language addressing the judgment of the auditor should also emphasize evaluating the significance of the noted inconsistencies for the audit as a whole.

Application and Other Explanatory Material

Audit Procedures for Obtaining Audit Evidence – Paragraph A 12

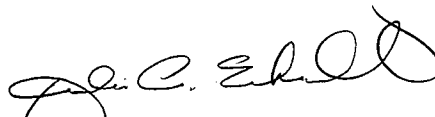
Paragraph A12 currently states, “Inquiry is used extensively throughout the audit as a complement to other audit procedures.” This suggests that inquiry alone is never a sufficient audit procedure. This may be seen to be inconsistent with the discussion in paragraph 4 that states that inquiry alone *ordinarily* does not provide sufficient audit evidence to detect a material misstatement at the assertion level, nor of

the operating effectiveness of controls. We suggest it should be made clearer in paragraph 4 that inquiry alone will not produce sufficient appropriate audit evidence that there is **not** a material misstatement. However, inquiry alone may produce evidence that there is a material misstatement.

In addition to the general comments we have made above, Appendix A contains our responses to the questions in the Explanatory Memorandum accompanying the ED and Appendix B contains some suggested additional edits and questions.

We appreciate the Board's thoughtful consideration of the points raised in this letter. If you have any questions or need additional information about the comments that we have provided, please do not hesitate to contact me or Susan Koski-Grafer at 202-551-5300 or contact members of the SC 1 Audit Subcommittee.

Sincerely,



Julie A. Erhardt
Chair
IOSCO Standing Committee No. 1

Appendix A

Responses to Requests for Specific Comments in the Exposure Draft

1. Are the objectives to be achieved by the auditor, stated in the proposed redrafted ISA, appropriate?

As stated in the main body of our letter, we believe that the objective to be achieved by the auditor as stated is not appropriate. The objective should be revised to include the identification and evaluation of the various qualities of audit evidence while planning, designing and performing audit procedures to obtain sufficient as well as appropriate (relevant and reliable) audit evidence. A suggested wording could be as follows:

The objective of the auditor, when planning, designing and performing audit procedures, is to identify and evaluate the various qualities of the audit evidence to obtain audit evidence that is sufficient and appropriate.

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?

In line with our suggestion for revising the objective, we therefore believe the requirements should be revised e.g. in paragraph 11.

Paragraph 13, covers the selection of items for testing. It makes no reference to the importance of the relevance or reliability of the audit evidence and how this is related to the items being tested. This link should be made more explicit.

See above re paragraph 14.

Appendix B Additional Comments

Audit Evidence (paragraphs 3-7)

- Paragraph 3 indicates that audit evidence may include information obtained from previous audits. The ability to obtain audit evidence from previous audits is repeated in paragraphs A5 and A20 of this ISA, as well as paragraph A20 of ISA 200. Given the IAASB's February 2007 discussion (see February 2007 Agenda Item 5, paragraphs D8 – D10) in which the Board concluded that it is "rare" that evidence from substantive procedures is carried forward from a previous audit, we believe that this concept is given too much prominence. Consequently, we believe that the references to previous audits in paragraphs 3 and A20 should be deleted. If not deleted, we believe that cautionary guidance should be provided regarding the ability to use evidence from previous audits, consistent with the language used in paragraph A5.
- As written, the second sentence of paragraph 4 suggests that analytical procedures and inquiry is one form of audit procedures. As these are distinct audit procedures, the sentence should be re-written as follows: "Audit procedures to obtain audit evidence include...recalculation, reperformance, ~~and~~ analytical procedures and inquiry."

Selecting Items for Testing to Obtain Audit Evidence (paragraph 13)

- Paragraph 13, which is derived from paragraph 22 and 23 of extant ISA 530, addresses only the auditor's responsibility for designing effective tests of controls and tests of details. This seems to inappropriately exclude the auditor's responsibility to design effective analytical procedures when that form of substantive procedure is used. Further, because this proposed ISA addresses the auditor's responsibility to design and perform audit procedures to obtain reliable audit evidence, at a minimum, it would seem that it should incorporate the discussion of the reliability of the data used in analytical procedures from paragraph 12(c)-(d) of ISA 520.

Sources of Audit Evidence (paragraphs A1 – A3)

- Paragraph 6 of extant ISA 500 included examples of audit evidence from sources related to the entity (minutes of meetings; controls manuals; information obtained by the auditor from such audit procedures as inquiry, observation, and inspection; and other information developed by, or available to, the auditor that permits the auditor to reach conclusions through valid reasoning) that have been deleted in proposed ISA 500 because, as explained in the Supplement to Proposed ISA 500, these examples were considered to be unnecessary. We believe that these examples should be retained in ISA 500 because they represent valid sources of audit evidence, and the objective of paragraphs A1-A3 is to explain the sources of evidence. In other words, the mere fact that these sources of audit evidence may not be as reliable as sources that are independent of the entity does not invalidate their legitimacy as sources of audit evidence. Further, retaining these "internal" sources of audit evidence would be consistent with the approach taken by the IAASB in paragraphs A8 and A12 when referring to "internal" documents and inquiry of persons "throughout the entity", respectively.

Audit Procedures for Obtaining Audit Evidence (paragraphs A4 – A19)

- Paragraph A4 indicates that audit evidence to draw reasonable conclusions on which to base the audit opinion is obtained by performing risk assessment procedures *and* further audit procedures, which comprise tests of controls *and* substantive procedures. While paragraph A4 also refers to ISA 315 (redrafted) for further guidance, the reference to performing tests of controls should be clarified to indicate that control testing is performed “when necessary or when the auditor has chosen to do so” (consistent with the language used in paragraph 19 of extant ISA 500) because as currently written, it appears that control testing is required in all circumstances.
- Paragraph A15 indicates that in respect of some matters, the auditor is “required” to obtain written representations from management. While this is true, we do not believe that – in the context of explaining the nature of inquiry audit procedures – the reference to management representation letters should be limited to instances when such representations are required, as there are instances in which the auditor chooses to obtain representations to provide additional audit evidence. See also paragraph 34 of extant ISA 500, which is not limited in this regard.

Information to be used as Audit Evidence (paragraphs A20 – A30)

- The explanation of relevance in paragraph A21 is confusing. A more clear and concise explanation might be: “Relevance deals with the pertinence of the audit procedure to the assertion under consideration.”
- Paragraph A22 is derived from paragraph 8 of extant ISA 500. However, paragraph A22 omits the relevant explanation in paragraph 8 of extant ISA 500 that obtaining audit evidence related to a particular assertion is not a substitute for obtaining audit evidence regarding another assertion.
- Because paragraphs A25 – A27 all discuss concepts related to the *relevance* of audit evidence rather than the *reliability* of audit evidence, so it seems more logical that they should be located under the “relevance” caption (i.e., after paragraph A22).
- Paragraph A30 states, “...the appropriateness of the audit evidence obtained is affected by whether the information is sufficiently precise or detailed for the auditors’ purposes.” While this is true, the appropriateness of the audit evidence is not just affected by the level of precision, but also the accuracy and completeness of the information. This concept is explained in extant ISA 315 from which paragraph A30 was derived. Consequently, this sentence should be revised to state, “...the appropriateness of the audit evidence obtained is affected by whether the information is accurate, complete and sufficiently precise or detailed for the auditors’ purposes.”