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Organización Internacional de Comisiones de Valores
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June 26, 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 USA

Email address: Edcomments@ifac.org

Re: Exposure Draft of Proposed Redrafted International Standard on Auditing ISA 230, *Audit Documentation*

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 230, *Audit Documentation* (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. 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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In general, we welcome the changes that have been made in clarifying and redrafting ISA 230 and believe it is an improvement over the existing standard. However, we have a number of comments on additional changes that would further improve its enforceability and clarity.

Scope of this ISA - Nature and Purposes of Audit Documentation – Paragraph 2

We are concerned that the way this paragraph is drafted is not fully consistent with the objective of the ISA. The first sentence in this paragraph states that audit documentation "provides evidence of the auditor's basis for a conclusion about the achievement of the overall objective of the auditor". We recommend the addition of a statement that documentation also provides evidence of achievement of individual ISA objectives and compliance with ISA requirements. Making mention of both purposes would then make this paragraph consistent with the objective of the standard.

Definitions – Paragraph 5

We recommend that this paragraph be revised to clarify that risk assessment and planning are also intended to be covered by the general documentation requirements in this ISA. It is important that these aspects of the audit are mentioned along with "the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached" because the documentation of the basis for planning the audit should also be done in a way that "would enable an experienced auditor having no previous connection with the audit, to understand..." (what was done).

Further, it would seem equally important that audit risk assessment and planning documentation would be prepared as called for in this ISA, that is, that it be prepared on a timely basis; that any departures from the ISA requirements be documented; that after assembly of the final audit file is complete, no such documentation is subsequently deleted or discarded from it; and that if the auditor finds it necessary to modify the documentation after the audit file is complete, the auditor be obligated to indicate when and by whom the changes were made and the reasons for doing so.

Objective – Paragraph 4

We believe the objective for this ISA adequately conveys the outcome that the auditor is to achieve, i.e., to have and produce documentation that provides a sufficient and appropriate basis for the auditor's report and also evidence that the audit was performed in accordance with ISAs and applicable legal and regulatory requirements.

Requirements

Form, Content and Extent of Audit Documentation – Paragraph 7

Documentation is very important to the enforceability of audit standards and we would like to emphasize the role of documentation in providing an audit trail. Therefore we encourage the Board to add the italicized clarification noted below (italics ours) to paragraph 7.

"The auditor shall prepare the audit documentation so as *to provide an audit trail that will enable an experienced auditor, having no previous connection with the audit, to understand...*"

Form, Content and Extent of Audit Documentation – Paragraph 8

We assume that the Board's goal in deciding to have a requirement to document audit work that is in the form of discussions with management and others is to acknowledge that discussions, by their nature, do not result in a written record and therefore the auditor should not forget to make notes of discussions of significant matters where those discussions are a form of audit evidence. We agree with the need for such documentation, but we recommend that the Board add a statement cautioning that the evidence obtained by inquiries of the client is the weakest form of evidence because it cannot usually be regarded as conclusive since it is not from an independent source. Thus, it is normally necessary to obtain further corroborating evidence by other procedures in order for the auditor to rely on information obtained through client inquiries.

Documentation of Departure from a Relevant Requirement – Paragraph 10

As we have commented previously, we find the wording "unless otherwise clear" to be problematical. The phrase seems circular and unneeded, because in order for something to be otherwise clear, somewhere in the audit documentation it should be evident as to why the auditor departed from the requirement and what was done instead. The necessary information may be in the work papers that describe the procedures followed, in a summary or memo of significant matters and auditor judgments, or some combination of both. If the Board agrees with the description we have just outlined, we see no reason to include the exception "unless otherwise clear" from the requirement for the auditor to document why it departed. In fact, the phrase itself is circular and redundant, for if something is "otherwise clear" it must be because there is something somewhere in the documentation, somehow, that makes it clear.

Identification of Specific Items or Matters Being Tested, and of the Preparer and Reviewer – Paragraph 11

We wish to raise a question regarding the sequence of paragraphs. Would it be better if the information about what exactly the auditor records in documenting the nature, timing and extent of audit procedures performed were placed so it would immediately follow the paragraph that sets out this requirement in the first place? Currently, the requirement is set out in paragraph 7, then the reader needs to read thru paragraphs 8, 9 and 10 which address different matters, before coming back to paragraph 11 which elaborates on paragraph 7, specifically it elaborates on paragraph 7(a). The ISA might be easier to work with if the elaborative guidance in paragraph 11 was placed right after the paragraph 7 to which it relates.

Application and Other Explanatory Material

Documentation of the Audit Procedures Performed and Audit Evidence Obtained – Paragraph A3

Paragraph A3 states “Abstracts or copies of the entity’s records *may* [emphasis added] be included as part of audit documentation if considered appropriate.” We believe the term “may” should instead be the term “will need to” because, if read literally, the sentence as drafted says that even if the auditor has decided that it is appropriate to include something as part of the documentation, the auditor nonetheless retains a free choice as to whether to include it. Having a choice about something that meets the condition of being appropriate doesn’t make sense to us.

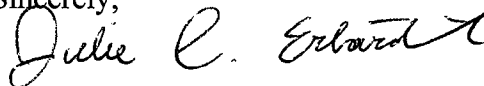
Documentation of Significant Matters - Paragraph A10

Paragraph A10 states “Examples of circumstances in which it would be appropriate to prepare audit documentation relating to the use of professional judgment include, where the matter and judgments are significant::” To clearly link this application guidance to the requirement in paragraph 7(c), we recommend that this first sentence in paragraph A10 be revised as follows:

“The following are examples of circumstances in which it is appropriate to prepare audit documentation relating to matters and the use of professional judgment, where the matters and judgments are significant.”

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 at 202-551-5300 or contact members of the SC 1 Audit Subcommittee.

Sincerely,



Julie A. Erhardt

Chair

IOSCO Standing Committee No. 1

Responses to the Particular Questions for Respondents Raised in the ED

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

We believe the objective is appropriate. It adequately conveys the outcome that the auditor is to achieve, i.e., to have and produce documentation that provides a sufficient and appropriate basis for the auditor's report and also provides the evidence that the audit was performed in accordance with ISAs and applicable legal and regulatory requirements.

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?

Our focus in reviewing this Exposure Draft was on how well we believe the resulting standard will support the public interest by contributing to high quality audits, rather than on the Board's methodology for redrafting the standard and determining requirements. In this regard, please see our comments in the main body of this letter.

3. Do you agree with the changes described above as being helpful to the clarity of the redrafted ISA, including whether considerations in the audit of small entities have been dealt with appropriately?

Our comments as securities regulators run to the overarching goal of the Board's work which is to improve the quality of ISAs and contribute to the quality of audits. Our focus of interest is the audits of public listed companies and accordingly, we do not have any comment on the issue of considerations for small entities except to request that it be emphasized in ISAs that the definition for such entities and any reduced procedures for same do not apply to small entities that are listed companies.