



EUROPEAN COMMISSION

Internal Market and Services DG

**FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE
Director**

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Mr Jim Sylph
Technical Director
International Auditing and
Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York,
NY 10 017 – USA

**Subject: Comment on the Exposure Draft of ISA 500 (Redrafted) –
*Considering the Relevance and Reliability of Audit Evidence***

Dear Mr Sylph,

1. We appreciate the opportunity to comment on the IAASB proposal for a redrafted International Standard on Auditing on audit evidence.
2. Our main concern on this draft is that as currently stated, the construct of the ISA and the requirements do not support well the objective of the ISA. The auditing techniques listed in the Application Material in paragraphs A4 to A19 should at least be linked to requirements. The use of these techniques, in the context of the Objective of this ISA, would be further underpinned by elevating appropriate parts of the extant standard into requirements. Further, we think there should be no or very limited application material relating to the Introduction section. We observed in recent exposure drafts that Introductions tend to become lengthier and to carry increasingly authoritative material. We do not support this trend.
3. We also consider that ISA 500 should encourage the use of external confirmation techniques for obtaining audit evidence, at least for such key third parties as banks.

We explain further these concerns in the Annex and provide suggestions for amendments to the wording for the final ISA. We also comment on other issues.

4. I would like to emphasise that this comment letter cannot pre-empt any future official position of the European Commission. In particular, our position on the above ISA, and the objectives therein, may be modified depending on the outcome of the future revision of ISA 200 in the frame of the Clarity project.

5. The comments in this letter have taken account of the views expressed within the European Group of Auditors' Oversight Bodies (EGAOB), and/or within the 'ISA Sub-group' of the EGAOB. The ISA Sub-group is comprised of participants from European organisations including audit regulators, standard setters on auditing, professional bodies, and companies. Those comments may not necessarily reflect in all circumstances unanimous views of the members of the EGAOB and/or of the participants to the EGAOB ISA Sub-group.

Yours sincerely,



Pierre Delsaux

Cc: Jürgen Tiedje (European Commission), Members of the European Group of Auditors' Oversight Bodies and of the Audit Regulatory Committee.

Annex – Comments on International Standard on Auditing 500

GENERAL COMMENTS

1. Introductions tend to carry an increasing authority, either because of the material therein or due to related application material. We believe such trend is not compatible with the overall thrust of the Clarity Project. In this context, the Introduction of ISA 500 should be shorter and avoid prescriptive material.
2. For instance, the concepts of sufficiency and appropriateness of audit evidence in paragraphs 6 and 7 seem to not add much to the definitions of these concepts in paragraphs 10(c) and 10(d). Paragraphs 6 and 7 should be deleted and the definitions expanded as necessary.
3. The introduction addresses a number of techniques and important concepts (i.e. analytical procedures, inspection, tests, observation, inquiry, confirmation, recalculation, reperformance and so forth) for obtaining audit evidence. These are supported by application material (par. A4-A19). Due to this construct, this key material appears isolated from the objectives and requirements of the ISA. We invite the IAASB to modify the ISA so as to develop Requirements underpinning the use of these techniques in the context of the Objective of the ISA. In this regard, we suggest elevating the second sentence of paragraph 4 ("Audit procedures [...] include inspections...") into one or several requirement(s). A requirement in this way could read: "The auditor shall select the most appropriate procedures enabling under the circumstances to obtain audit evidence, among the following procedures: inspection, observation, ...". Paragraphs A4-A19 on the techniques should be cross-referenced to either para. 11 or to the new paragraph suggested above.

REQUEST FOR SPECIFIC COMMENTS

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

4. The Objective seems too much procedure oriented. This may be due to the transfer towards ISA 200 of the requirement to gather audit evidence, which leaves ISA 500 with less authoritative requirements. We invite the IAASB to modify the drafting so as to better reflect what the outcome of the standard is, i.e.: to ensure that the auditor obtains sufficient appropriate audit evidence. Reference to how ISA 200 addresses audit evidence may be helpful in this regard.
5. Our final position on the objective may also depend on the final future outcome of the future revision of ISA 200 in the frame of the Clarity project.

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?

6. We understand from the latest developments that ISA 505 (revised and redrafted) will address external confirmations only from a purely technical perspective (i.e. how, but not whether to perform external confirmations). Unless it is the intention of the IAASB that ISA 505 would address this, we expect ISA 500 to expand on this and to develop material assisting the auditor to decide when to perform external

confirmation. In particular, comprehensive direct confirmation from banks is common practice already in many EU jurisdictions and mandatory in some. We may elaborate further on this matter when commenting on ISA 505.

7. Paragraph 11 should be thoroughly redrafted. We understand that the intention of this paragraph is to require the auditor to design audit procedures, and in doing so, to assess which procedures will best enable him to obtain appropriate audit evidence. However the drafting of paragraph 11 does not convey this message. We believe this is due to the use of such expressions such as "shall consider", but also to the construct. The word "appropriateness" which is defined in the ISA should for instance replace the words "relevance and reliability", as these are the very definition of appropriateness. Starting the sentence with "when designing audit procedures" is not helpful, as we believe there should be precisely a requirement to design these procedures in the first place. Finally, a number of corporate failures, such as Parmalat, show that reliability of audit evidence is a key issue: more emphasis should be put on how the auditor should address the reliability of information either in para. 11 or in A23.
8. Paragraph 12 uses twice the term: "auditor's purposes" and once the term "purposes of the audit". These are not explained in the Application Material (A28-A30). Paragraph 12 would be simpler if clearer terminology was used, or if only one of the terms was used together with application material, so as to better connect paragraph 12 with the Objective, Definitions and/or fundamental concepts.
9. Please also see our comments in point 3. of this letter on auditing techniques.

Translation issues

10. No issues specific to ISA 500 were identified in the area of translation.