



EUROPEAN COMMISSION
Internal Market and Services DG

FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE

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

Subject: Comment on Exposure Draft "Improving the Clarity of IAASB Standards" – October 2005

Dear Mr Sylph,

1. We appreciate the opportunity to comment on the first four standards the IAASB intends to take forward under its Clarity Project (see our detailed replies to the questions in the annex). This bottom up approach will certainly allow the audit profession in many countries to obtain a better understanding of what is expected from them.
2. Adoption of ISA in the EU would require abandoning the principle by which professional standards are "best practice" instruments, on the basis of which audit regulators or individual Member States might develop proper rules more tailor made for supervisory needs. Instead, the future 8th Company Law Directive foresees a model of *direct application of standards in the EU*; standards would become a legal instrument binding the audit profession, companies, national audit regulators (as well as regulators in financial services), national courts and other parties concerned. Accordingly, we invite the IAASB to take this into full account as we consider it the best way for reaching international convergence.
3. For these reasons, we would like to draw your attention to four pivotal aspects:
 - (a) **Preface:** The IAASB consults on the Preface applicable to all (future) standards. The terms and contents of this Preface will have a pivotal bearing on the future standards covered by the Clarity Project for the coming years. However, this Preface is highly unlikely to become part of Community legislation following the endorsement procedure foreseen in Article 26 of the 8th Company Law Directive; as a consequence, the European Union would have to judge the quality of future standards without having had regard to the underlying Preface.

This poses a problem which could be resolved if the IAASB is ready to advance a consultation on the future ISA 200 *Objective and General Principles Governing an Audit* which should incorporate all the essential elements of the Preface. There is a strong preference on our side for this solution.

Having a substantial discussion on ISA 200 would also offer the following advantages under the Clarity project: ISA 200 should be the standard for addressing properly such concepts as the issue of the inherent limitations of an audit, the concepts of reasonable assurance, audit risk and appropriate and sufficient audit evidence, as well as the terminology associated to these concepts to be used in the objectives of the future standards. This would avoid tackling these issues in the objectives in each individual standard under the Clarity Project.

- (b) **Objectives:** ISA 200 focuses on the objective for an audit of financial statements. Therefore, we consider this ISA, which should be revised as part of the Clarity project, as a foundation on which to build the objectives of all other ISA, including those of the current Exposure Draft. The objectives of the four standards which are subject of the current exposure draft should be much more linked to the overarching objective set out in a future ISA 200.
 - (c) **Documentation:** Achieving the objectives under ISAs will require the exercise of judgement. The auditor's professional judgement in specified cases should be properly documented with regard to the application of the standards. We believe that IAASB needs to give further consideration to how objectives can be used as the basis for determining documentation needs. Audit regulators should also be able to obtain an insight, via documentation, into how an auditor actually applied his judgment. Therefore, a reconsideration of documentation requirements is vital when reforming the ISA. We invite the Board to consider amending ISA 230 - this would help the debate on documentation requirements in all the other individual ISAs. Further details are given in Appendix 1, answer to Question 10.
 - (d) **Corporate law:** It is essential that ISAs do not interfere with what is the domain of corporate law of the individual jurisdictions, such as European or national company law. If ISAs were to become part of EU regulations, the Objectives, Definitions, Requirements and Application Material must avoid setting corporate duties or building on national concepts of internal controls that are not neutral with respect to all jurisdictions.
4. We very much appreciate – and remain fully supportive of – all the efforts the IAASB undertakes in the Clarity Project. All the Member States equally attach great importance to it. However, we have major difficulties in accepting that Clarity is fully implemented for all ISAs only by 2011. We strongly encourage completion of the Clarity Project by mid-2008 at the latest – at a point where the entire 8th Directive will have been implemented by all the Member States in the European Union. In addition, we mentioned in our letter of 3 October 2005 that we support the early revision of ISA 260, 320, 505, 570, and 720, in order to address difficulties already identified by the EU Member States. It is also likely to be important to consider the revision of ISA 540/545 – *Auditing Accounting Estimates / Fair value*.

If the IAASB considers our proposed timetable, we are aware that substantial revisions of notably old standards – other than those mentioned above – may not be organised at the same time; under these circumstances, it would be useful to explain how and when a substantive revision of older standards would be envisaged.

5. At present, the European Commission is still about to consider whether to adopt International Standards on Auditing. You will therefore understand that the responses attached to this letter cannot pre-empt our future official position.
6. The comments in this letter have taken due account of the views expressed within the European Group of Auditors' Oversight Bodies (EGAOB), and within subgroup 'ISA' of the EGAOB. The 'ISA' subgroup is comprised of participants from European organisations including audit regulators, standard setters on auditing, professional bodies, and companies.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Pierre Delsaux', enclosed within a large, loopy scribble.

Pierre Delsaux
Acting Director

Enclosures: Appendix 1: Detailed answers to Q1 to Q10
 Appendix 2: Redrafted objectives: illustrative examples
 Appendix 3: Examples of requirements to be modified

Appendix 1- Questions 1 to 10: detailed answers

Q1. In the light of the separation of requirements and application material, as presented in the four ISA Exposure Drafts, do you believe there is a need to repeat the requirements at relevant points within the application material to enhance context and reference, as discussed on page 10?

- 1.1. The Commission supports separating the application material from the requirements.
- 1.2. The system of cross references between requirements and guidance proposed by the IAASB is the appropriate way forward.
- 1.3. We are concerned that the extent of "essential guidance" embedded in the requirements sections makes those sections difficult and lengthy to read. We invite the IAASB to maintain only what is strictly necessary in the requirements sections.

Q2. Are the objectives to be achieved by the auditor, stated at the beginning of the proposed ISAs, appropriate?

- 2.1. There is a wide support throughout the EU for a principles / objective based approach for developing auditing standards.
- 2.2. Beyond the comments in the cover letter, objectives should avoid being just a summary of requirements set out subsequently in the same standard. Instead, objectives should be:
 - outcome-based, i.e. stating what conclusions or deliverables an auditor is expected to reach under a certain standard. This would help emphasise that compliance with the requirements set out in the ISA is not necessarily sufficient;
 - dovetailed with the overarching objective for an audit of financial statements as currently stated in ISA 200, in the Preface, and in the framework on assurance engagements ('top down' approach).
- 2.3. In addition there is a need to put in place a consistent and complete framework of objectives across all standards. The 'population' of objectives needs to be considered altogether. This method will allow avoiding loopholes with respect to what the overarching objective(s) of an audit is(are). An individual ISA addresses only part of the auditing process and this might have an influence over how types of objectives are to be drafted.
- 2.4. Finally, we support IAASB's opinion that the list of requirements should be open ended. If more outcome oriented objectives are laid down in standards, they would also guide the auditor to decide whether more requirements than those already required in the standard are necessary to reach the objective. Objectives should offer the necessary support for audit regulators inspecting audit firms during external quality controls, in particular documentation to be held by auditors.
- 2.5. On this basis, we suggest in Appendix 2 redrafted objectives as illustrative examples of our approach.

Appendix 1- Questions 1 to 10: detailed answers

Q3. Have the guidelines identified by the IAASB for determining whether a requirement should be specified, as set out on page 6, been applied appropriately and consistently, such that the resulting requirements are at a level that promotes consistency in performance and the use of professional judgment by auditors?

3.1. We support the criteria set by the IAASB for setting new requirements. The following principles should apply:

- (a) The criterion that a new requirement should be "necessary" could be examined under the angles of the necessity to reach the objective pursued, including possible costs. It is unclear from the Exposure Draft how the principle of proportionality ("the requirement is necessary...") was applied by the Board. Providing reasons for not having changed parts of the extant standards into new requirements is welcome. We encourage the IAASB to also explain the reasons for setting new requirements, against the criteria.
- (b) Setting new requirements by "elevating" present tense should go along with further clarification of the language used. One example is in paragraph 29 of revised ISA 240 (stemming from paragraph 88 of extant ISA 240). This paragraph reads: "If the auditor believes that a misstatement [...] may be indicative of fraud [...] the auditor shall evaluate the implications [...] on the audit". It is not clear how a requirement (which an audit inspector may have to control) could be subject to a 'belief' of the auditor.
- (c) In the same vein, we would prefer a more consistent application of the "proportionality" principle in setting new requirements – as compared to those in extant ISAs. If the criteria had been applied consistently, part of the new requirements would in our opinion stay as application material. Conversely, some application materials have been identified as potentially to be "elevated" to requirements. We encourage IAASB to review its decisions on these paragraphs (see Appendix 3).

Q4. Has the application material been edited in a way that makes it clearer?

4.1. See our response to Question 3.

Q5. Has an appropriate balance been achieved between eliminating duplicative material and retaining some repetition in the proposed ISAs to help users understand a particular ISA or how the ISAs interrelate?

5.1. Overall we agree on the balance achieved between eliminating duplicative material and retaining some repetition.

Appendix 1- Questions 1 to 10: detailed answers

Q6. Do you support the way in which special considerations in the audits of SMEs and public sector entities have been presented in the application material?

- 6.1. We support the general principle of dealing with the audit of SME in the guidance. We would not support a suggestion that objectives or requirements in future standards should be tailored or modified specifically for SME audits, as it is not clear in ISAs and under the IAASB Clarity Project which companies are considered as SMEs. We are ready to consider further measures the Board would believe are necessary.
- 6.2. The SME definition used in the 4th and 7th Company Law Directives is the relevant framework for the EU. The definition of 'small entities' in the glossary of terms should be amended to enable definitions depending on jurisdictions to apply.
- 6.3. Article 51 of the 4th Company Law Directive (Directive 78/660/EEC) requires a statutory audit for the annual accounts for limited companies. The Member States have an option to exempt small companies falling under certain thresholds¹. This option does not apply to listed companies. When using this option, Member States may set lower thresholds, and/or tailor the scope of exemption to only certain types of companies. The so-called medium sized companies remain however subject to an audit requirement under EU law.
- 6.4. For your background information, we present two tables:
- 6.5. Table 1 below shows the thresholds currently retained by the EU Member States for exempting small companies on the basis of turnover and balance sheet.

¹ As per Article 11 of the 4th Directive "small" companies are those which, for two consecutive years, do not exceed the limits of two of three criteria (see below). On December 2005, Council and European Parliament agreed to raise thresholds, by around 20% (revised thresholds are indicated between brackets), to be applied by 2008 at the latest:

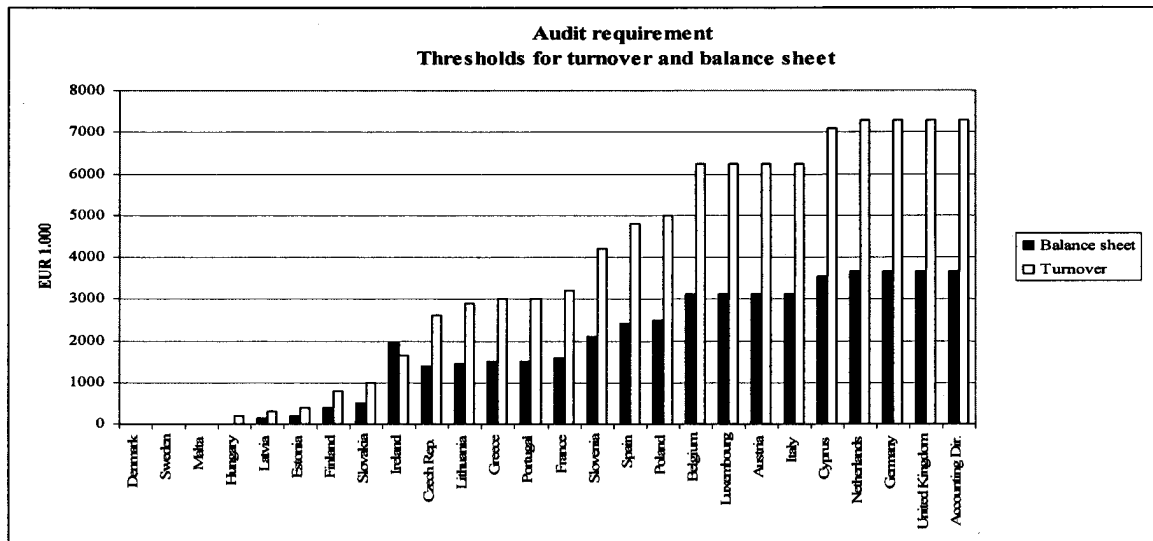
- balance sheet total: €3,650,000 (€4,400,000) ,
- net turnover: €7,300,000 (€8,800,000)
- average number of employees during the financial year: 50 (unchanged).

On the same basis, Medium sized companies are those exceeding the following thresholds (Article 27):

- balance sheet total: €14,600,000 (€17,500,000) ,
- net turnover: €29,200,000 (€35,000,000)
- average number of employees during the financial year: 250 (unchanged).

Appendix 1- Questions 1 to 10: detailed answers

Table 1. Member States implementation of the exemption from the statutory audit requirement – turnover and balance sheet criteria



6.6. In December 2005, new statistics were obtained showing approximately the proportion of small companies compared to the total number of limited companies which may be exempted from the statutory audit requirement by Member States, based on extant 4th Directive:

Country	Small	Medium	Small + Medium
Austria	89,88%	2,93%	92,82%
Belgium	95,40%	0,71%	96,12%
Denmark	92,60%	2,03%	94,63%
Finland	94,06%	1,56%	95,62%
France	94,43%	1,41%	95,84%
Germany	89,23%	3,01%	92,24%
Greece	84,82%	3,31%	88,13%
Ireland	93,71%	1,55%	95,26%
Italy	84,53%	4,24%	88,76%
Luxembourg	77,01%	6,22%	83,24%
Netherlands	89,04%	1,64%	90,68%
Portugal	85,22%	5,47%	90,69%
Spain	94,78%	1,15%	95,94%
Sweden	95,01%	1,35%	96,37%
UK	94,98%	1,34%	96,32%
Estonia	96,59%	0,47%	97,06%
Czech republic	82,80%	2,79%	85,59%
Hungary	66,61%	4,45%	71,06%
Slovenia	78,40%	5,19%	83,60%
Total	93,97%	1,80%	95,77%

Source: Report by Ramboll Management, Dec 2005, based on data for 2003. Shares above are only indicative since the database used, AMADEUS, includes only a limited part of the population of EU companies

6.7. On average, small companies for which the exemption from statutory audit is permitted under extant thresholds set by the 4th Directive represent nearly 94% of EU

Appendix 1- Questions 1 to 10: detailed answers

companies. Revised thresholds which will apply by 2008 at the latest (see footnote 1 in paragraph 6.3) would allow for wider exemptions. If ISAs were to be applied to the statutory audit of the remaining larger companies, the portion of medium sized companies would represent less than 2% of all limited companies in the EU.

Q7. Do respondents from developing nations foresee difficulties arising from the changes in the proposed ISAs in their environment?

7.1. The European Commission has no comments.

Q8. Do you foresee any potential translation issues?

8.1. The Glossary of terms should be updated (e.g. through conforming amendments) along with new or revised terms defined in the new "Definition" section of ISAs. This could e.g. be the case for the words "assertion level" in ISA330. This would help not only translating a particular term, but would also help other stakeholders, such as public oversight bodies, to better enforce the standards.

8.2. The new conceptual requirement substantiated by the words "shall consider" will represent a difficulty for translators. If the Board chooses to use this word with a particular meaning, we support restricting the use of the verb 'consider' to defined circumstances.

Q9. Do you agree with the proposed implementation approach, including priorities and timetable, as discussed on pages 8 and 9 and as set out in Appendix 1?

9.1. Please refer to paragraph 4 of the cover letter.

9.2. Should the IAASB not be able to accelerate the implementation process, we offered a solution based on "building blocks" in our letter of 3 October 2005. In addition, we mentioned in our letter that we support the early revision of ISA 260, 320, 505, 570, and 720, in order to address difficulties already identified by the EU Member States. It may become important as well to include the revision of ISA 540/545 – *Auditing Accounting Estimates / Fair value*, in the light of more conclusive debate on the framework on fair value accounting and the relevant accounting framework.

Q10 Do you have any comments on the necessary changes to the Preface to reflect the new drafting conventions?

10.1. The Preface cannot be the subject of an adoption by the EU under the recently adopted Directive on Statutory Audit. Our main concern for now with the Exposure Draft is precisely that it is difficult to comment on the revision of the Preface while there is no simultaneous revision of ISA 200 and ISA 230, as explained in the cover letter.

10.2. In the context of outcome-based objectives, we agree that an auditor 'must' achieve the objective. However this should be clearly cross referenced to the inherent limitations of an audit, as highlighted in the cover letter. This concept needs to be discussed in particular with the new generation of audit regulators.

10.3. Should the concepts of "relevant" objectives/cases/requirements, and "exceptional circumstances" be maintained, there is a need to clarify what these exactly mean.

Appendix 1- Questions 1 to 10: detailed answers

- 10.4. Documentation is key when the auditor makes use of his professional judgement in instances when its use is not self-explanatory. We have identified several cases where an auditor is likely to use professional judgement: (i) when an ISA require that the auditor "shall consider" (see also below), or (ii) in case of a departure from a requirement, when the auditor has to explain how the alternative procedures performed achieve the objective, or (iii) when in the professional accountant's professional judgment, further procedures in addition to those mandated are necessary for the purpose of achieving an objective. In order to avoid the use of professional judgement becoming a "black box", we take the view that in instances when an auditor makes use of professional judgement in applying ISAs, at least in one of the above-mentioned three cases, and when a decision made is not self-explanatory, documentation is necessary to evidence this professional judgement.
- 10.5. The new conceptual requirement substantiated by the words "shall consider" is not clear. In the Preface, it seems to suggest that an option to carry or not to carry out a procedure is offered. However, in numerous places, 'shall consider' is not used within this meaning (e.g. in ISA315, paragraph 12(c)). This is confusing. Our understanding is that 'shall consider' is a procedure whereby the auditor would make his decision after 'considering' circumstances around his audit or particular aspects of the audited entity. The Board is invited to clarify the concept, to design and require a specific documentation, as mentioned above, and to use the verb 'consider' only where it is in line with the meaning intended in the Preface.
- 10.6. Two new classes of information would be introduced by the 'Clarity' exercise, on which the Board does not seek comments, namely the 'Introduction' and the 'Definition' sections. The status and authority of the Introduction is unclear though it tends to carry a significant amount of information on the context and use of the standard. We strongly support not giving the Introduction more authority than for guidance. This should be clarified. The new Definition paragraph has a clear connection with the Glossary of terms. The latter should be updated (e.g. through conforming amendments) along with new or revised terms defined in the new "Definition" section of ISAs.
- 10.7. It should also be made clear that ISAs are not meant to interfere with what is the domain of corporate law of the individual jurisdictions, such as European or national company law (see point 3 of the cover letter). For example exposed ISA315, par 4(b) defines the internal control as "the process designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations". Under a recent amendment to the 4th and 7th Company Law Directives² agreed by the European Parliament on 15 December, listed European companies should only provide a description of the main features of their internal control system related to financial reporting in a so-called corporate governance statement. Accordingly, the standard should neither define the role of persons charged

² See also paragraph 6.3 of this letter and footnote 1

Appendix 1- Questions 1 to 10: detailed answers

with governance in relation to internal controls nor an assurance the company has to provide on internal controls.

Appendix 2 – Redrafted Objectives: illustrative examples

The illustrative examples in this Appendix are provided for the purpose of providing the IAASB with reworded objectives which clarify and underpin some of the suggestions made in Appendix 1 and the cover letter, such as making objectives more outcome oriented. These examples do not seek to pre-empt the results of a revision, if any, of ISA 200 and ISA 230 as we suggested it. The final drafting of objectives to be adopted by the IAASB should obviously reflect the results of such revision.

<i>Illustrative Example:</i>		ISA 240
IAASB proposal	Commission proposal	
<p>In relation to this ISA, the objective of the auditor is to:</p> <p>(a) Consider fraud when identifying and assessing the risks of material misstatement of the financial statements, by maintaining an attitude of professional skepticism and recognizing the possibility that a material misstatement due to fraud could exist;</p> <p>(b) Respond to the assessed risks of material misstatement of the financial statements due to fraud, including the risks of management override of controls, by designing and performing procedures to detect material misstatement due to fraud; and</p> <p>(c) Respond appropriately to identified or suspected fraud.</p>	<p>In relation to this ISA the objective of the auditor is to:</p> <ul style="list-style-type: none"> • <i>Identify and assess throughout the audit</i> the risks of material misstatements due to fraud; and • respond <i>appropriately</i> to the assessed risks <i>in order to obtain sufficient appropriate audit evidence in respect of audit risk due to fraud</i>; and • <i>inform</i> appropriately <i>interested parties</i> of the identified or suspected fraud. 	
<p><i>The drafting proposed by the IAASB is rather process and procedures driven. This is underpinned by the use of expressions such as "consider fraud", or "maintain an attitude of professional skepticism". The objective of "identifying and assessing" convey in our view the outcome needed. Since this ISA is relevant throughout all the activities the words 'throughout the audit' are added.</i></p> <p><i>The need to inform a wide range of interested parties, including e.g. stakeholders and / or competent authorities, of the identified or suspected fraud should be underlined. For statutory audits, such stakeholders and competent authorities are further defined under national law.</i></p>		

Appendix 2 – Redrafted Objectives: illustrative examples

<i>Illustrative Example:</i>		ISA 300
IAASB proposal	Commission proposal	
<p>In relation to this ISA, the objective of the auditor is to plan the audit so that it will be performed in an effective manner.</p>	<p>In relation to this ISA the objective of the auditor is <i>to develop and update the overall audit strategy and audit plan by notably addressing the important matters</i> so that the audit will <i>provide a reasonable basis for the auditor's opinion</i>.</p>	
<p><i>We suggest redrafting ISA300 in a more output and outcome based manner. Planning as such is the process and therefore its key deliverables ("to develop and update the overall audit strategy and audit plan"), such as "addressing the important matters", should be clearly set out in order to allow also audit regulators to have a clear understanding of how objectives should be reached. Addressing 'important matters', i.e. setting appropriate priorities of an audit, carries more appropriately the idea of effectiveness combined with proportionality, than mentioning merely the need to perform an audit in an "effective manner".</i></p>		

<i>Illustrative Example:</i>		ISA 315
IAASB proposal	Commission proposal	
<p>In relation to this ISA, the objective of the auditor is to obtain an understanding of the entity, including its internal control, and its environment sufficient to identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and sufficient to design and perform further audit procedures.</p>	<p>In relation to this ISA the objective of the auditor is to</p> <ul style="list-style-type: none"> • obtain sufficient understanding of the entity, including its internal control and its environment; and • identify and assess the risks of material misstatements, <i>in order to obtain sufficient appropriate audit evidence</i> to design and perform further audit procedures. 	
<p><i>The objective, as currently drafted, does not ask directly the auditor to identify and assess the risks and focuses only in overall terms on obtaining an understanding of the entity. However ISA 315 is a foundation on which ISA 330 will have to build. Therefore, we suggest dividing the objective into two parts to make them equally important.</i></p>		

Appendix 2 – Redrafted Objectives: illustrative examples

<i>Illustrative Example:</i>		ISA 330
IAASB proposal	Commission proposal	
<p>In relation to this ISA, the objective of the auditor is to:</p> <p>(a) Determine and implement overall responses to assessed risks at the financial statement level;</p> <p>(b) Design and perform further audit procedures to respond to assessed risks at the assertion level; and</p> <p>(c) Evaluate whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level.</p>	<p>In this ISA the objective of the auditor is to respond appropriately to the assessed risks in order to obtain sufficient appropriate audit evidence <i>in respect of</i> audit risk.</p>	
<p><i>We think that the proposed drafting goes into too much detailed level and is too long. We suggest merging (a) and (b) to express the objective of this ISA without having separate objectives to both financial statement and assertion levels as this is being dealt in the requirement section of this ISA.</i></p> <p><i>We are concerned about the suggestion to refer to "reducing audit risk to an acceptably low level". On the assumption that ISA will be mandatory, it would give the impression that any remaining audit risks would be at the outset already incumbent on audit regulators and audit regulation.</i></p>		

Appendix 3 - Examples of requirements to be modified

Requirement to be moved to the Application material section

ISA 240

- Paragraph 17(a)(iii) of ISA stating that "the auditor should assess management's process to respond to internal and external allegations of fraud" has been identified as one not applicable to virtually all audits, and therefore as one that could be kept within application material.
- Paragraph 20 requires the auditor to presume there are risks of fraud in revenue recognition and to document the reasons supporting the auditor's conclusions if, in a particular case, the auditor has not identified revenue recognition as a risk of material misstatement due to fraud. Such risks the auditor then identifies and assesses as being risks of material misstatement due to fraud are to be treated as significant risks. This does not appear to be in line with the criterion set forth in the Explanatory Memorandum. It cannot necessarily be expected to be applicable in virtually all engagements to which the Standard is relevant. ISA 240 is a Standard that is applicable in all engagements, and not all entities have revenue that may be subject to significant fraud risks.
- Paragraph 26 is repeating the overriding requirement set forth in paragraph 19 of the proposed Preface for auditors to perform additional procedures, beyond the requirements of an individual ISA, which in their professional judgment are necessary in the circumstances to achieve the objective of the ISA. Repeating this in the form of a separate requirement in paragraph 26 is superfluous.

ISA 300

- Paragraph 7(d) requires the auditor to take into account the results of experience gained from other engagements performed for the entity when planning an audit. This could be inherently problematic and appears not to satisfy the criterion of applicability in virtually all cases. If this requirement were not to be reshaped as application material, the words should be changed to clarify that the experience in question is experience of the auditor and not of any other person in the audit firm.

ISA 315

- Paragraph 8: same comments as on ISA 300 paragraph 7(d) above.
- Paragraph 7 of ISA 315 does not impose any requirement to the auditor and is confusing. It emphasizes that an auditor has to perform the risk assessment procedures for each aspect of understanding the entity, but not necessarily the procedures from each category as indicated in paragraph 6 of ISA 315. This sounds as clarification, rather than an exemption, to what was mentioned in paragraph 6, and even looks like contradicting the Preface in that all requirements should be performed in order to reach an objective. We believe that paragraph 7

Appendix 3 - Examples of requirements to be modified

(and/or paragraph 6 accordingly) has to be redrafted as a requirement or become a part of application material with paragraph A9.

- Paragraph 17 of the currently exposed ISA 315 makes up two pages. We find this paragraph too lengthy to be included as such in the requirements section. It mainly describes internal controls (e.g. in paragraph 17(a)(i)to(vii)), rather than only laying down the requirements to be performed by the auditor. Therefore, we suggest moving the description of the internal control systems to the application material.

ISA 330

- The requirement included in paragraph 5 repeats the objective currently included in paragraph 3(a) in Redrafted ISA 330. Subject to our comment on the objective, we recommend the IAASB considers if this specific duplication is necessary.
- ISA 330, paragraph 23: this requirement is overly detailed. It is not clear why it is essential that these considerations should be set out as requirements rather than application material: we conclude that this paragraph does not pass the necessity test.
- In our opinion, the requirement in paragraph 25 is a general requirement, but not essential for the auditor to achieve the objective of this ISA. Furthermore this requirement is already included ISA (Revised) 700 paragraph 13. Because ISA is to be regarded as a “complete package” this is redundant in the context of this ISA and should be removed from ISA 330 as part of the clarity project. If the IAASB decides to retain this requirement the objective should be amended to reflect this aspect.

Application Material to be moved to the Requirements section:

ISA 315

- Paragraph 15 of ISA 315 requires the auditor in addition to inquiry of the entity's personnel to perform one or more of the procedures set out in paragraph A62. For the purpose of the clarity, we suggest keeping all these procedures in one place, preferably in the requirements section. This will also make the standard shorter without losing the substance of the standard.
- Some European audit regulators signalled further cases, including paragraphs A13, A14 and A22 of ISA 240, and paragraph A24 of ISA 315, where the Board may reconsider the possibility of elevation to requirements.