



EUROPEAN COMMISSION

Internal Market and Services DG

FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE

Director

03.08.07

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Brussels,
MARKT/2007/

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 250 (Redrafted) – *The Auditor's Responsibilities Relating to Laws and Regulations in an Audit of Financial Statements*

Dear Mr Sylph,

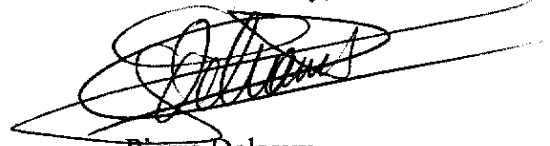
1. We appreciate the opportunity to comment on the IAASB proposal for a redrafted International Standard on Auditing on laws and regulations.
2. We would like to offer the following main comments:
 - Paragraphs 3, 4 and 5 in the introduction as well as related paragraphs A1 and A2, about the respective responsibilities of management and auditors, may bring potential confusion to the reader. This is due to the uncertain authority attaching to the Introduction paragraphs, to the repetition of ISA 200 which such statements inevitably entails, and also to the potential for undesirable additions and discrepancies as compared to ISA 200. All material relating to the premises and responsibilities of an audit should be removed from ISA 250. The relevant parts should be addressed exclusively in ISA 200.
 - Paragraph 14 on written representation should be thoroughly modified or deleted so as to be in line with the concept of the recently revised ISA 580 on management's representations.

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.

3. 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.

4. 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,

A handwritten signature in black ink, appearing to read 'Pierre Delsaux', is written over a horizontal line. The signature is stylized and somewhat illegible due to the cursive nature of the handwriting.

Pierre Delsaux

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

GENERAL COMMENTS

Title and thrust of the ISA

1. The introduction of the notion of “auditor’s responsibility” in the redrafted title appears more confusing than solving issues. We suggest having a thrust of the title in line with the audit model, such as i.e. “Consideration of Laws and Regulations in an Audit of Financial Statements”, or “Compliance with Laws and Regulations”.
2. We get the impression from reading Redrafted ISA 250 that it does not fit in well within the audit risk model, substantiated by e.g. ISA 315. For example, one may question how “considering compliance”, and having “procedures when non-compliance is identified or suspected” fits in with the audit model consisting in identifying and assessing the risks of material misstatements and responding to assessed risks.

Introduction

3. Overall, the introductory part of this ISA is particularly lengthy and confusing with regard to the content of the standard.
4. The sub-section heading of para. 2: *Nature of Laws and Regulations* seems unhappy if ISAs were to belong precisely to the body of EU regulations. We suggest to modify it, e.g. into *Interaction of Laws and Regulations with the Entities’ financial statements*.
5. Material relating to fundamental concepts, such as the respective responsibilities of management and of the auditor in paragraph 3 should not be dealt with in any introductory part of any ISA given the unclear status and authority of these parts, and the potential for repetition and discrepancies as compared to ISA 200. Premises on respective responsibilities should belong exclusively to ISA 200. In addition, establishing management’s responsibilities rests with individual jurisdictions and courts rather than ISAs.
6. Paragraphs 4 and 5 appear in total isolation of the context provided by ISA 200, and may therefore confuse the readers of ISA 250 how to understand the Introduction and cast doubts whether ISA 200 is comprehensive. For example, the statements on non-responsibility of auditors regarding prevention and statements of higher risks resulting from non-compliance cannot be understood unless there are addressed in the canvas of broader considerations on inherent limitations of an audit and how to consider fraud. These concepts should be addressed thoroughly in ISA 200, and only in ISA 200.
7. As a result, paragraph 3 and A1 should be removed from the ISA, Similarly, paragraphs 4 and 5 describing (and circumscribing) the auditor’s responsibilities should be deleted or, alternatively, thoroughly amended and shortened with a reference to e.g. ISA 200.
8. For the sake of Clarity and avoidance of repetition, we also support deleting the end of para. 6: “Specific, but differing [...] of an entity” since it does not bring new

elements as compared to the content of ISA 250 or the behaviour of auditors when the body of ISAs is applied.

Documentation

9. In order to ensure consistency of the clarity process, each ISA should include the same reference to ISA 230 on Audit Documentation. We understand that the line adopted by the IAASB is to refer systematically the reader to ISA 230 each time an ISA would include a section on Documentation. This has been done e.g. in the near final draft of ISA 600. This is why we support including at the beginning of para. 28 the following: "In meeting the documentation requirements in ISA 230, "Audit Documentation" and other ISAs, the auditor shall document...."

Application Material

10. The meaning of the last sentence of A7 ("Other ISAs ...") is unclear. It should at least read "In addition to ISA 250, other ISAs..." but also may undergo further clarification as to its meaning.

REQUEST FOR SPECIFIC COMMENTS

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

11. We support the distinction between risks due to non compliance that have a direct effect on the financial statements, and risks due to non compliance with other laws that may have potential effects.
12. Our final position on other aspects of the objectives 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?

13. We believe that overall, the extent and scope of the requirements should enable the auditor to achieve the intended results, subject to the following comments:
14. In paragraph 11, it should be more appropriate to refer to "laws and regulations generally recognized by auditors ..." rather than by "the auditor". The current drafting tends to indicate that one auditor would have a different interpretation than another on laws and regulations applying generally to all businesses, whereas ideally the same interpretation should prevail. Paragraph 6 should be redrafted analogically.
15. In paragraph 13, it is difficult to understand exactly what "being alert to the possibility that other audit procedures applied may bring instances of possible non-compliance" means. We believe that what is intended to be required from the auditor should be stated more clearly.
16. It is unclear whether paragraph 14 requires general or specific representation. We are inclined to see the requirement of this paragraph as a general representation. If representation required in ISA 250 were general representation by nature, then paragraph 14 should be deleted since ISA 580 on Written Representation is the place

where such representation is addressed. If, on the contrary, this should be seen as specific representation by nature, then we invite the IAASB to review and amend thoroughly paragraph 14 so as to align it with the recently revised ISA 580.

Translation issues

17. No issues specific to ISA 250 were identified in this area.