



February 28, 2006

Mr. Jim Sylph  
Technical Director  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, NY 10017

Dear Mr. Sylph:

We appreciate the opportunity to comment on the proposed amendments to the *Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services* and the following proposed redrafted International Standards on Auditing (ISAs) (the “proposed standards”):

- ISA 240 (Redrafted), *The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements*
- ISA 300 (Redrafted), *Planning an Audit of Financial Statements*
- ISA 315 (Redrafted), *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*
- ISA 330 (Redrafted), *The Auditor’s Procedures in Response to Assessed Risks*

We are supportive of the progress to date of the clarity project. The structure of the proposed standards, including the objectives, is the result of several years of discussion and debate among a diverse group of interested parties. While we have some comments about the proposed objectives (refer to our response to Question 2), we believe that the structure and content of the proposed standards are much clearer than before.

As requested in the explanatory memorandum accompanying the proposed standards, this letter includes our responses to questions posed by the International Auditing and Assurance Standards Board (IAASB), as well as other comments on specific paragraphs in the proposed standards. In our recommendations for editorial changes, additions are noted in “bold underline” and deletions in “double strike-through.”

**Responses to Questions Posed in the Explanatory Memorandum:**

*Restructuring Aspect of the New Drafting Convention*

**1. 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?**

We have divergent views on this point within our member firms.

Some believe that repeating the requirements at relevant points within the application material will provide the reader with the appropriate context and reference and will make the written standard easier to read.

Others believe that a clear separation between the requirements and the application material sections is essential to enhance the readability of each ISA and that the cross-references between requirements and application material as illustrated in the four proposed standards are sufficient.

*Application of the New Drafting Conventions to the Four ISA Exposure Drafts*

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

Today, the standards describe the overall objective for an audit. That objective is to obtain sufficient audit evidence to enable the auditor to express an opinion on the financial statements, alternatively expressed as planning and performing the audit to reduce risk to an acceptably low level. In every instance this objective must be met, recognizing that the auditor needs to use professional judgment in determining whether the objective has been achieved.

In the course of debate, many participants have expressed concerns that this mandatory objective, while appropriate, is insufficient to result in appropriate performance by auditors in all cases. Some participants in the debate believe there needs to be an increased level of specificity about what is required. We agree that something more is needed and believe that it is appropriate to create tailored objectives, framed as auditor actions, related and relevant to each standard.

We believe that it is important that the objectives of each standard possess all of the following characteristics:

- Applicable to all audits
- Stated in sufficient detail to be meaningful
- Consistent with the overall objective such that any outcome described is achievable within the inherent limitations of an audit embedded in the concept of reasonable assurance as stated in ISA 200

Accordingly, we suggest changes to the following objectives:

*ISA 240 – The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements*

• **Paragraph 11(b)**

**Design and perform procedures in** response~~d~~ to the assessed risks of material misstatement of the financial statements due to fraud, including the risks of management override of controls, to reduce risk to an acceptably low level; ~~by designing and performing procedures to detect material misstatements due to fraud;~~

*ISA 300 – Planning an Audit of Financial Statements*

• **Paragraph 3**

In relation to this ISA, the objective of the auditor is to plan the audit **and to document that plan**, ~~so that it will be performed in an effective manner.~~

Subject to the changes above, we believe that the objective(s) stated at the beginning of each proposed standard are appropriate.

*Other Considerations*

- In creating objectives, IAASB needs to strike a balance between measurability of performance and application of professional judgment.
- If objectives are stated as outcomes, care needs to be taken that they are consistent with the inherent limitations of an audit. For example, suppose one objective is for the financial statements “to be free of misstatement”. If that objective is described as mandatory, it could be construed to mean that anytime the financial statements are materially misstated the audit was not conducted in accordance with the standards. This would be inconsistent with the notion of reasonable assurance and with the practical cost, resource and time limitations of an audit.
- We believe that completing the project as quickly as possible is crucial. We encourage the IAASB to “stay the course” with the approach used in the proposed standards. Significant rethinking will result in significant delays in the project.

**3. 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?**

Overall, we believe that the requirements contained in the proposed standards meet the guidelines set forth in the explanatory memorandum, promote consistency, and allow for the use of professional judgment by auditors, which we believe is appropriate.

We have made some additional comments on the requirements in the Comments on Proposed Standards, by Paragraph section below.

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

The use of cross-references and linkages to other standards, rather than repetition of the same extracts in multiple standards, has improved readability in both the requirements and application materials sections of the proposed standards. Additionally, the “cleaning up” of other extraneous language and examples has made the application material clearer.

To further enhance the clarity of the application material, we suggest that a consistent referencing convention be used. Currently, in some cases in the application material, the references to the requirements section are detailed in the bold topic heading. In other cases, the reference is attached to the italicized sub-topic heading.

**5. 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?**

Yes. We believe there needs to be a goal of eliminating as much duplicative material as possible. The reduction of redundant and extraneous language in the proposed standards has improved their readability. We believe a good balance has been struck between that reduction and the maintenance of some repetition where appropriate, for context and reference purposes.

**6. 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?**

Yes. The presentation of special considerations in the audits of SMEs and public sector entities within the proposed standards is clear.

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

There is a need to keep the English plain with the avoidance of long or convoluted sentences. For the majority of users of ISAs, English will not be their first language.

**8. Do you foresee any potential translation issues?**

The proposed standards face the same translation issues that the extant ISAs were facing. Because it is difficult to translate terms that have several connotations, in future development of standards, care should be taken in choosing such words.

*Implementation Approach*

**9. 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?**

We support efforts to complete this project sooner than the timetable indicates, especially in light of the endorsement process of the ISAs by the European Union.

*Proposed Amendments to the Preface*

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

Please refer to our response to Question 2. Additionally, the status of the material contained within the Introduction section of the proposed standards should be described in the Preface.

**Comments on Proposed Standards, by Paragraph:**

*ISA 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*

• **Overall**

The phrase in the extant ISA “an understanding of the entity and its environment, including its internal control” was reformatted in the proposed standard to read “an understanding of the entity and its internal control, and its environment”. The proposed language seems to exclude the environment from the umbrella of internal control which is misleading. We would suggest using the language as presented in the extant ISA.

• **Extant paragraph 72**

The mapping document supplement accompanying the proposed standard indicates that this present tense paragraph was not included in the proposed standard. Given the sensitivity to independence, and the control environment, we suggest reformatting the paragraph (noted below) to eliminate the present tense and including it in application material.

“In understanding the design of the control environment, the auditor considers such matters as the independence of the directors and their ability to evaluate the actions of management. The auditor also considers whether there is an audit committee that understands the entity’s business transactions and evaluates whether the financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with the applicable financial reporting framework.”

*ISA 330, The Auditor’s Procedures in Response to Assessed Risks*

• **Extant paragraph 7**

In the extant standard, paragraph 7 contains the present tense statement, “ In designing further audit procedures, the auditor considers such matters as:

- The significance of the risk
- The likelihood that a material misstatement will occur...”

The mapping document supplement accompanying the proposed standard explains that the bullets above were “very generic” and are covered by paragraph 6 of the proposed standard. However, paragraph 6 of the proposed standard is itself high-level and does not explicitly mention significance and likelihood, which we believe should be included as explicit consideration points in paragraph 7 of the proposed standard.

• **Paragraphs 18 – 24**

Paragraph 6 of the proposed standard discusses the “nature, timing and extent” of the auditor’s further audit procedures. Paragraphs 8 to 17 then discuss the nature, timing and extent of tests of

controls, with italicized sub-headings for nature, timing and extent. However, the section on substantive testing (paragraphs 18 -24) does not contain the same italicized sub-headings, nor does the flow of the section follow the “nature, timing and extent” pattern. We recommend that this section be consistent with the internal controls paragraphs preceding it, by incorporating the sub-headings and re-formatting the flow of the paragraphs within the section.

We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact P. Nicholas Fraser at + 33 1 55 61 21 87.

Very truly yours,

/s/ Deloitte Touche Tohmatsu