

September 25, 2007

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

Dear Mr. Sylph:

We appreciate this opportunity to comment on proposed International Standard on Auditing (ISA) 500, *Considering the Relevance and Reliability of Audit Evidence* (the “proposed standard”) as developed by the International Auditing and Assurance Standards Board (IAASB). We are supportive of the development of this guidance and believe that the overall redrafting of the proposed standard was completed in accordance with the clarity conventions and criteria adopted by IAASB.

Within our recommendations for editorial changes, additions are noted in “bold underline” and deletions in “double strike-through.”

RESPONSES TO QUESTIONS IN THE EXPLANATORY MEMORANDUM

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

In order to make the objective in paragraph 9 more consistent with the definition of audit evidence in paragraph 10(b), we suggest the following revision to the objective:

9. The objective of the auditor is to design and perform audit procedures ~~so as to be able to obtain~~ **capable of providing** sufficient appropriate audit evidence **for the purposes of drawing conclusions on which the audit opinion is based.**

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?*

Yes, we believe that the criteria identified by the IAASB for determining whether a requirement should be specified have been applied appropriately and consistently.

OVERALL COMMENTS ON THE PROPOSED STANDARD

- **Stand Alone Standard**

Overall, we note that there is significant repetition and reference between the proposed standard and other ISAs (for example, ISA 200, ISA 315, and ISA 330), and that much of the extant ISA 500 was moved into other standards. As noted in the explanatory memorandum to this proposed standard, we understand that the repetition (for example, the material in paragraphs 3-6, as noted in a later comment in this letter) was intentional, in order to emphasize important concepts.

We believe, however, that if the repetition in the proposed standard was eliminated, there would not be sufficient remaining material for a stand-alone standard. Therefore, we recommend that all of the concepts in this proposed standard be moved to ISA 200.

However, if the IAASB does not decide to adopt this recommended approach, we believe that the proposed standard should include additional guidance on “sufficiency” as the concepts of relevance, reliability and sufficiency are interrelated, and a standard on Audit Evidence should not stand alone without a thorough discussion of sufficiency. Therefore, if our recommendation to move all concepts in this proposed standard to ISA 200 is not adopted, we recommend that the proposed standard also include the guidance from ISA 200, paragraphs A20 through A23 on “Sufficiency and Appropriateness of Audit Evidence.”

- **Exclusion of Paragraph 14 from the Extant ISA 500:**

According to the mapping document (Agenda Item 11-D) of the background materials for the April 2007 IAASB meeting, paragraph 14 of the extant ISA 500 is covered by various paragraphs in the revised and proposed ISA 200, and therefore is not needed in the proposed standard. We, however, believe that this paragraph contains important concepts that relate to audit evidence, and believe that this information would be helpful to auditors when understanding the concepts of appropriateness, reliability and relevance. While we understand that the concept of maintaining professional skepticism is a requirement within ISA 200 (paragraph 11), we think it is important to remind auditors in the context of the proposed standard that it is to be used in evaluating the quantity and quality of audit evidence. Accordingly, we suggest that paragraph 14 of the extant ISA 500 (see below) be brought into the application material of the revised standard (with reference to the requirement in ISA 200 paragraph 11).

Extant ISA 500, paragraph 14. **In forming the audit opinion the auditor does not examine all the information available because conclusions ordinarily can be reached by using sampling approaches and other means of selecting items for testing. Also, the auditor ordinarily finds it necessary to rely on audit evidence that is persuasive rather than conclusive; however, to obtain reasonable assurance, the auditor is not satisfied with audit evidence that is**

less than persuasive. The auditor uses professional judgment and exercises professional skepticism in evaluating the quantity and quality of audit evidence, and thus its sufficiency and appropriateness, to support the audit opinion.

- **Introduction - Relationship of the Proposed Standard to Other ISAs:**

As the proposed standard contains wording from and multiple references to other ISAs, we believe it would be helpful to provide some information in the introduction on the relationship of the proposed standard with other ISAs. This would be consistent with the redrafting of other ISAs through the clarity process.

- **Consistency in “for example,”:**

As a general comment, “e.g.,” and “for example,” are both used throughout the proposed standard. Specifically, “e.g.,” is used in the following paragraphs: 3, A7, A11, A13, A16, A20, A31, A32, and A33; “for example,” is used in the following paragraphs: A2, A6, A9, A16, A22, A23, A28, A30, & A35. We recommend that only one of the two options be used, in order to promote consistency.

COMMENTS BY PARAGRAPH

- **Introduction Paragraphs 3-7:**

Overall, we believe that the material in paragraphs 3-7 is either (a) repetitive of other ISAs or material within the proposed standard, or (b) could be moved to other parts of the proposed standard. Accordingly, we recommend that this entire section be removed from the proposed standard as described below:

- We believe that the material in paragraphs 3-5 is repetitive of other ISAs, and accordingly, recommend that it be deleted.
- We recommend that the first sentence of paragraph 6 also be deleted, as it is repetitive of the definition audit evidence and is not needed.
- We suggest that the second sentence of paragraph 6 become a new subparagraph (e) of paragraph 10 to introduce the concept and definition of reliability.
- We recommend that paragraph 7 be move to the application material and applied to the definitions in paragraph 10.

- **Paragraph 3:**

We believe that the structure of the sentence regarding the entity’s accounting records as a source of audit evidence implies that the entity’s accounting records are a more important source of audit evidence than other sources inside and outside the entity. We believe that evidence obtained outside the entity is generally more reliable. In order to revise the emphasis of this sentence, we recommend the following editorial changes:

3. ...In addition to sources inside and outside the entity, the entity's accounting records are an important source of audit evidence ~~along with other sources inside and outside the entity.~~

- **Paragraph 10:**

The definitions for “relevance” and “reliability” are currently included in the application material in paragraphs A21 and A23. As these concepts are the base of the proposed standard, we believe that they should be included in the definitions section in paragraph 10. We also recommend that the definitions be placed in alphabetical order in paragraph 10, for ease of reference.

- **Paragraph 11:**

We believe that the “shall consider” requirement in paragraph 11 is somewhat unclear, and therefore an ineffective requirement. If the IAASB’s intention for the requirement was for the auditor to evaluate the reliability and relevance of the audit evidence, we recommend the following changes, which we also believe is more in line with the application material in paragraphs A20 – A27:

11. ~~When designing audit procedures, t~~**The auditor shall consider evaluate the relevance and reliability of the information to be used as audit evidence when designing audit procedures and considering their objective.**

- **Paragraph 12:**

We believe that the revisions to the introduction of paragraph 11 of the extant ISA 500, which now form the introduction to paragraph 12 of the proposed standard, do not result in a more clear understanding of what “information produced by the entity the auditor shall evaluate.” As currently written, paragraph 12 could be interpreted to mean that only information which is “requested by the auditor” to be used on the audit shall be tested for accuracy, completeness and preciseness. One could argue that information that the entity produces in the normal course of business and uses as the basis for information in the financial statements (for example, the receivables aging that the client uses to evaluate bad debt allowance) would not be subject to testing of accuracy and completeness.

We believe the introductory wording from the extant ISA 500 paragraph 11 is more inclusive of this information, and recommend that paragraph 12 of the proposed standard be revised to reflect such wording as follows:

12. When information **produced by the entity is** used by the auditor **to perform audit procedures** ~~for purposes of the audit was produced by the entity,~~ the auditor shall evaluate whether the information is sufficiently reliable for the auditor’s purposes, including as necessary in the circumstances: ...”

- **Paragraph A22:**

In reviewing the Supplement to the proposed standard (the mapping document), we noted that two sentences from paragraph 8 of the extant ISA 500 were not included in

paragraph A22. While one of the two sentences was truly an unnecessary example, we believe that the last sentence (see below) should be included in the proposed standard.

A22. (at end of paragraph) **Futhermore, obtaining audit evidence relating to a particular assertion, for example, the physical existence of inventory, is not a substitute for obtaining audit evidence regarding another assertion, for example, the valuation of inventory.**

Additionally, as this paragraph discusses assertions, we believe it should more explicitly state that auditors obtain sufficient appropriate audit evidence for each assertion as required by ISA 330.

- **Paragraph A27:**

We believe that the statement “the auditor may need to make an assessment of the expected rate of deviation or expected misstatement in the population” is both out of place in this proposed standard and misleading. We believe that these concepts more appropriately belong in ISA 530, *Audit Sampling*. Therefore, we recommend that this paragraph be deleted from the proposed standard and included in ISA 530.

We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact Jens Simonsen, Director of Global Audit Services at + 1 212 492 3689 or John Fogarty, Chairman – DTT Assurance Technical Policies and Methodologies Group at + 1 203 761 3227.

Very truly yours,

A handwritten signature in black ink, appearing to read "Jens Simonsen". The signature is written in a cursive style with a large, looped initial "J".