



January 31, 2007

Mr. Jim Sylph
Technical Director
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) 260 (Revised and Redrafted), *Communication with Those Charged with Governance* (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, overall, that the 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 Posed in the Explanatory Memorandum

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

We are concerned with the nature of the objective in Paragraph 5 (b), referenced below, and the auditor’s ability to demonstrate he or she has aimed to achieve it, in accordance with the Preface to the ISAs.

5 (b): “Obtain from those charged with governance, information relevant to the audit;”

The objective relies on a common understanding between those charged with governance and the auditor as to what information is considered “relevant to the audit”. However, the proposed standard does not provide guidance on what that phrase means in the context of the objective.

In addition, the auditor’s ability to achieve the objective relies on the willingness and ability of those charged with governance to recognize and impart such information. Given that the ISAs can not establish requirements for those charged with governance, it places the auditor in a

potentially burdensome position of attempting to obtain information from those charged with governance without any onus on those charged with governance to provide such information.

Finally, there may be circumstances in which certain members of those charged with governance do not possess information relevant to the audit. For example, in certain circumstances, there may be individual members included in those charged with governance (such as non-executive members of the board) that are not in a position to provide “information relevant to the audit”. We are not sure whether the objective intends for the auditor to seek information from each and every member of those charged with governance, or whether in “aiming to achieve” the objective, the auditor could judge which members of those charged with governance possess “information relevant to the audit”.

Overall, we are concerned with including as an objective for the auditor to achieve an outcome that relies so heavily on another party’s cooperation and input. Therefore, we suggest that paragraph 5 (b) be reworded and incorporated into paragraph 3 where the importance of effective two-way communication is discussed.

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?

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

However, we note that certain requirements paragraphs include sentences that use a “may” construction, rather than a “shall” construction. We understand that these sentences are considered by the IAASB to be essential explanatory material, but we are concerned that the reader may be confused as to the authority certain of these “may” sentences carry.

Therefore, we suggest that these sentences, in paragraphs 7 and 9, be moved to the relevant Application Material section. We do not believe the reader’s understanding of the requirements will be impaired by this suggestion, and in fact, believe they are more appropriately placed as guidance in the proposed standard.

Comments by Paragraph

- **Paragraph 3**

We recommend the following editorial change to clarify further the scope of the ISA:

“Recognizing the importance of effective two-way communication during an audit of financial statements, this ISA provides an overarching framework for the auditor’s communication with those charged with governance, and identifies some specific matters to be communicated with them. **This ISA does not address all matters relating to communication with those charged with governance.** Additional matters to be communicated, which complement the requirements of this ISA, are identified in other ISAs...”

- **Paragraph 6 (a), Footnote 4**

We recommend the following editorial change to clarify the meaning of the footnote:

““Person” in this context could ~~be~~ **mean** an organization, ~~e.g.,~~ **such as** a corporate trustee ~~(i.e., not necessarily a “natural person”),~~ or a natural person.”

- **Paragraph 10**

We believe that much of the guidance in paragraph 10 and paragraph A12 is superfluous. One of the principles of the proposed standard is that the auditor should communicate with those charged with governance or a subgroup thereof, as reflected in paragraph 9. The guidance in paragraph 10 that the communications do not need to be repeated if those charged with governance are also management seems evident. We therefore recommend the deletion of paragraphs 10 and A12.

- **Paragraph 11**

We recommend the following editorial change to clarify the meaning of the sentence:

“Communication by management with those charged with governance of matters **that** the auditor is required to communicate does not relieve the auditor of the responsibility to also communicate them **to those charged with governance.**”

- **Paragraph 19**

We agree that the auditor should take appropriate action if two-way communication between the auditor and those charged with governance has not been adequate for the purposes of the audit. However, we believe that action might include activities beyond those which address the effectiveness of the communication process.

In order to allow more flexibility and judgment in the action undertaken by the auditor, we recommend that the second sentence of paragraph 19 be restored to the wording used in the “close-off” draft of the standard, as follows:

“If it has not, the auditor shall take appropriate action ~~to address the effectiveness of the communication process.~~”

- **Paragraph A39**

As currently written, we are unsure whether “occasions” refers to specific events, and if so, the nature of those events. We recommend the following editorial change to clarify the meaning of the guidance.

“~~On occasions,~~ **Those** charged with governance may wish to provide to third parties...”

- **Appendix 1 – Reference to ISA 240**

The Appendix cites paragraph 42 of ISA 240:

“In accordance with ISA 260, “The Auditor’s Communication with Those Charged with Governance,” the auditor shall communicate with those charged with governance any other matters related to fraud that are, in the auditor’s judgment, relevant to their responsibilities.”

We note that the proposed standard does not contain an explicit requirement for the auditor to communicate other matters related to fraud that, in the auditor’s judgment, are relevant to the

responsibilities of those charged with governance. We recommend that the IAASB revisit the proposed standard to determine whether to incorporate such a requirement.

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 + 45 3610 3781 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, stylized initial "J".