



July 31, 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) 250, *The Auditor's Responsibilities Relating to Laws and Regulations in an Audit of Financial Statements* (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 Posed in the Explanatory Memorandum

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

Yes, we believe the objectives are appropriate.

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 Comment on Categories of Laws and Regulations

We have noted that in clarifying paragraphs 18 and 19 of extent ISA 250, paragraphs 11 and 12 of the proposed standard provide a more obvious distinction between two types of laws and regulations – those that “have a direct effect on the determination of material amounts” and other laws and regulations where “non-compliance may have a material effect on the financial statements.” This distinction is also presented in the proposed standard in paragraphs 6, 8, A8 and A9.

We strongly endorse the proposed standard’s distinction of the different categories of laws and regulations and believe that it provides needed clarification of the requirements. However, we believe that the proposed standard should provide additional guidance for auditors to operationalize the clarified requirements. We believe that practitioners may find it difficult to identify which laws and regulations do not directly affect the determination of material amounts and disclosures in the financial statements, but which may have a material effect on the financial statements (i.e., those laws and regulations described in paragraph 12 of the proposed standard). Additional examples of these types of laws and regulations would be helpful, particularly as the required audit procedures for the two categories are different. It would also be helpful to clarify the IAASB’s expectations for the documentation of the auditor’s categorization and procedures performed on the different types of laws and regulations.

Comments by Paragraph

- **Paragraph 5:**

We are unsure what is meant by the phrase “the auditor has regard to” in the second sentence of paragraph 5, and suggest the following changes:

“In conducting an audit of financial statements, the auditor ~~has regard to~~ **takes into account** the applicable legal and regulatory framework.”

Also, we recommend the following editorial change:

“ISA 200 (Revised and Redrafted), “Overall Objective of the Independent Auditor, and the Conduct~~te~~ of an Audit in Accordance with International Standards on Auditing...”

Additionally, we suggest removing the last sentence of paragraph 5. We believe some readers could interpret this sentence to mean that the “closer” (as opposed to “further removed”) non-compliance is to the events and transactions reflected in the financial statements, the more onus should be put on the auditor to detect such non-compliance. It could also be argued that all non-compliance is somehow close to the transactions of the financial statements (e.g., payment of penalties, etc). We do not believe this sentence is necessary in the extant standard or in the proposed standard and recommend that it be deleted.

- **Paragraph 6(a):**

We recommend the following editorial change to be consistent with wording in part (b) of paragraph 6:

“6. (a) those laws and regulations generally recognized by the auditor to have an effect on the determination of material amounts and disclosures in the financial statements (for example, such laws and regulations include income tax and pensions law and regulations (see paragraph 11)); and...”

- **Paragraph 12:**

As written in the extant standard and the proposed ISA, the paragraph states that the auditor shall perform procedures to “help identify” instances of non-compliance with other laws and regulations. We are concerned that (1) the procedures listed in bullets (a) and (b) may not identify instances of non-compliance, and that (2) the use of the word “help” to modify the word “identify” may be misconstrued to imply that there are other procedures that the auditor should perform to identify instances of non-compliance, which are not listed in the ISA. We believe the wording used at the end of paragraph A9 is more appropriate for the requirement in paragraph 12, and therefore recommend the following wording changes to clarify the extant standard:

“12. In addition, the auditor shall perform the following audit procedures to ~~help identify instances of~~ **bring instances of possible** non-compliance with other laws and regulations that may have a material effect on the financial statements to the auditor’s attention:...”

Additionally, we believe further application material is needed to more fully describe what is required by bullet (b) of paragraph 12, which states that the auditor shall inspect correspondence with the relevant licensing or regulatory authorities. Many entities are subject to a significant number of laws and regulations where non-compliance with such would result in material fines. As a result, these entities may have volumes and volumes of correspondence with licensing and regulatory authorities, and we believe additional guidance in paragraph A9 is necessary to clarify the extent of the review of such correspondence which is required by bullet 12(b).

- **Application Material for Paragraph 16:**

Paragraph 8(c) and paragraph 16 both discuss the auditor’s response to “identified or suspected non-compliance with laws and regulations,” however, the current wording implies that the auditor shall perform the required procedures on *all* identified or suspected non-compliance, regardless of size or significance to the entity. On the other hand, paragraph 21 states that the auditor shall communicate with those charged with governance matters involving non-compliance, *other than when the matters are clearly inconsequential*.

We believe that the concept of “matters that are clearly inconsequential” should be included in the application material to support paragraph 16, so as to provide the logical and needed boundary which is already included in paragraph 21. This way, it will be

clear that the auditor does not need to document inconsequential matters as part of his or her compliance with the objective in paragraph 8(c) or the requirement in paragraph 16.

- **Paragraph 18:**

We are unsure as to what constitutes “information that supports that the entity is in compliance”. We suggest providing examples within the application material of what types of information the auditor would obtain, including examples of how the information may differ if obtained from a smaller entity.

- **Paragraph 21:**

As currently drafted, the communication requirement contained in the 2 bullets of paragraph 21 could be interpreted as relating to **all** matters involving non-compliance with laws and regulations other than when the matters are clearly inconsequential. If this is what the IAASB intended, then classification between bullets (a) and (b) are not needed and we suggest the following wording changes:

“21. Unless all of those charged with governance are involved in management of the entity, and therefore are aware of matters involving non-compliance already communicated by the auditor, the auditor shall communicate with those charged with governance:

~~(a) Any significant matters involving non-compliance with laws and regulations that have a material effect on the financial statements and~~
~~(b) Any other matters involving non-compliance with laws and regulations~~ that come to the auditor’s attention, other than when the matters are clearly inconsequential.”

However, if this was not the intent of the IAASB (for example, if the intent was to segregate significant matters during reporting or to parallel the distinction between the different types of laws and regulations described in the proposed standard), we suggest rewording this paragraph to clarify the reason for the distinction between the two bullets, as it is not obvious to our readers.

- **Paragraph 23:**

The last sentence of paragraph 23 was grey-letter text from paragraph 34 of the extent ISA 250, but is now a requirement within the proposed ISA. We do not agree with the elevation of this procedure to a requirement. Furthermore, as a requirement, we believe it creates an unreasonable requirement for the auditor to predict the future as to whether the entity will act upon the communication. Accordingly, we recommend that the IAASB move the sentence to application material. If such recommendation is not adopted, at a minimum, we suggest the following wording changes:

“Where no higher authority exists, or if the auditor ~~believes that the communication may not be acted upon or~~ is unsure as to the person to whom to report, the auditor shall assess the need to obtain legal advice.”

- **Paragraphs 28 and A22:**

We believe paragraphs 28 and A22 are not necessary. Paragraph 28 creates an unnecessary requirement that is already covered by ISA 230. There is also a paragraph within the exposed ISA 260 (paragraph 21) that covers this requirement.

“Exposed ISA 260, paragraph 21: Where matters required by this ISA to be communicated are communicated orally, the auditor shall document them, and how, and to whom they were communicated. Where matters have been communicated in writing, the auditor shall retain a copy of the communication.”

Therefore, we recommend deleting paragraphs 28 & A22.

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 fluid and cursive, with a large, stylized initial "J" that loops around the first part of the name.