



April 7, 2008

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) 520, Analytical Procedures, (the “proposed standard”), as developed by the International Auditing and Assurance Standards Board (IAASB).

Throughout this comment letter, within our recommendations for editorial changes, additions are noted in “bold underline” and deletions in “double strike-through.”

SIGNIFICANT MATTER IN EXPLANATORY MEMO – Scope of ISA 520:

We agree with the IAASB’s decision to relocate all guidance on analytical risk assessment procedures to ISA 315 and therefore have the proposed standard address analytical procedures used as substantive procedures in response to assessed risks and analytical procedures that assist in arriving at the auditor’s overall conclusion on the financial statements.

RESPONSES TO THE APPLICATION OF THE CLARITY DRAFTING CONVENTIONS:

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

Yes, we believe the objective in the proposed standard is 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 reporting, and the use of professional judgment by auditors?

Yes, we believe that the criteria have been applied appropriately and consistently.

COMMENTS BY PARAGRAPH:

- **Paragraph 8:**

This paragraph addresses two distinct concepts: (1) deciding when to use analytical procedures, and (2) how to design and perform analytical procedures. Instead of combining bullet 8(a), which describes the decision, with the other bullets 8(b) through 8(e) that describe the process, we recommend splitting paragraph 8 into two paragraphs – one to address “when” and the other to address “how.”

- **Paragraph 9:**

We believe the wording at the end of paragraph 9 is not correct, and that it would be more appropriate to use the wording which is included in the application material related to paragraph 9, as follows:

9. The auditor shall design and perform analytical procedures that assist in arriving at the overall conclusion as to whether the financial statements as a whole are consistent with the auditor’s ~~understanding of the entity~~ **conclusions formed during the audit.**

- **Paragraph 10:**

We believe that it is important to highlight the fact that inconsistencies or unexpected differences that are identified as a result of analytical procedures may be indicators of misstatements in the financial statements. Accordingly, we recommend that the sentence below be added to the end of paragraph 10, or alternatively, at the end of paragraph A19:

Based on the performance of other audit procedures, the auditor may conclude that some of these inconsistencies or differences represent identified misstatements in the financial statements. See ISA 450 for further guidance on misstatements.

- **Paragraph A1:**

In revising extant paragraph 10 to form proposed paragraph A1, the IAASB deleted the first two sentences of extant paragraph 10. We believe that a portion of those two deleted sentences should be reinstated in proposed paragraph A1 to provide necessary context around the phrase “which audit procedures.” We recommend one of the two following revisions:

A1. The decision about which audit procedures **(i.e., tests of details, substantive analytical procedures, or a combination of both)** to use is based on the auditor's judgment about the expected effectiveness and efficiency of the available audit procedures to reduce audit risk at the assertion level to an acceptably low level.

A1. **The auditor's substantive procedures at the assertion level may be derived from tests of details, from substantive analytical procedures, or from a combination of both.** The decision about which audit procedures to use is based on the auditor's judgment about the expected effectiveness and efficiency of the available audit procedures to reduce audit risk at the assertion level to an acceptably low level.

- **Paragraph A2:**

Although we understand that, as stated in paragraph A2, it may be effective to use "analytical data prepared by management" as part of substantive analytical procedures, we also believe it is important to include a reference to ISA 500 in this paragraph, to highlight the importance of evaluating data prepared by the entity before using it. Our recommendation is as follows (note that the reference to paragraph 12 of ISA 500 is based on the version of ISA 500 discussed at the March 2008 IAASB meeting):

A2. ...It may be effective to use analytical data prepared by management, provided the auditor is satisfied that such data is properly prepared, **as required by ISA 500, paragraph 12.**

- **Paragraph A6:**

Paragraph A6 discusses the use of tests of details versus analytical procedures. We recommend that a reference be added at the end of this paragraph to ISA 330, which discusses the prohibition of substantive analytical procedures *alone* when a significant risk has been identified.

- **Paragraph A12:**

In the first bullet of paragraph A12, the use of the words "expected" and "predicted" is redundant. We recommend the following revision:

The **inherent** accuracy with which the ~~expected results of analytical procedures as substantive procedures~~ **expectation** can be ~~predicted~~ **developed**. For example, the auditor may expect greater consistency in comparing...

- **Paragraph A14:**

The reference to paragraph 9 within paragraph A14 should be changed to "paragraph 8."

- **Paragraph A18:**

We believe that paragraph A18 should also discuss obtaining corroborative evidence about management's responses through independent inquires and examination of other evidence. Accordingly, we suggest the following revision:

A18. Audit evidence relevant to management's responses may be obtained by considering how those responses compare with:

- ~~€~~ The auditor's understanding of the entity and its environment ;
- ~~with~~ Other audit evidence obtained during the course of the audit ;
- **Inquires of persons independent of management or outside the entity;**
or
- **Examination of supporting evidence.**

- **Amendment to ISA 315:**

We believe the phrase in the first sentence of paragraph A7 "aspects of the entity" should be changed to a simpler term, for example "matters" or "issues."

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,

