

29 March 2007

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Dear Mr Sylph

Proposed Redrafted International Standard on Auditing 610 – The Auditor's Consideration of the Internal Audit Function

The Committee of European Banking Supervisors welcomes the opportunity to comment on the *ISA Proposed Redrafted International Standard on Auditing 610 – The Auditor's Consideration of the Internal Audit Function*.

Through their opinions on annual accounts and annual reports, external auditors constitute an integral part of the public oversight model and contribute to the financial stability of the market. As banking supervisors we therefore have an interest in ensuring that auditing standards, which are the basis for audit work, are of a high quality and are clear and capable of consistent application.

In general we note this clarified ISA is, in some cases, less clear than the previous ISA 610. We also note, given the increasing use of internal audit, that this ISA in particular is in need of a complete revision and update e.g. to cover in more detail the nature of co-operation between external and internal audit.

In the attached appendix we provide answers to the specific questions raised in the guide for respondents. In summary, we suggest a more outcome-oriented rewording of the objective and some changes to the requirements which from our point of view will enhance the clarity of proposed ISA 610 and its conformity with the board's drafting conventions.

Our comments were coordinated by our Expert Group on Financial Information (EGFI), and especially by its Subgroup on Auditing, which is under the direction of Pat Sucher from the FSA, UK.

If you have any questions regarding our comments, please feel free to contact the chairman of EGFI, Arnoud Vossen (+31.20.524.3903) or Miss Pat Sucher (+44.20.7066.5644).

Yours sincerely



Danièle Nouy
Chair

Comments on ISA 610, The Auditor's Consideration of the Internal Audit Function

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

We believe the objective could be phrased in a more outcome-oriented manner.

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 judgement by auditors?

Introduction

Paragraph 2 cross refers to application material A1-A2. As a matter of clarity we are of the opinion that at least the introduction and the objective of ISAs should stand alone with no need for cross reference to the application material. Paragraph 3 should include the idea that only *effective* internal auditing may be useful to the external auditor, as stated in the previous drafting (paragraph 10). Therefore we suggest adding "effective" to the second sentence of this paragraph before "internal audit".

Requirements

We suggest that there should be some rewording of Paragraph 7. We would move the reference to ISA 315 in brackets to the application material. In order to link the requirement in paragraph 7 more clearly to the objective we would suggest the following wording: "the external auditor shall obtain a *sufficient* understanding of the internal audit function in conjunction with obtaining an understanding of internal control *to determine whether certain aspects of its activities may be relevant to the audit of the financial statements when planning and performing the audit*".

We have a concern about the current flow of requirements between paragraph 7 and paragraph 8. Contrary to the original ISA, it is not clear in this clarified ISA in paragraph 8 that the external auditor may use the information gained through work covered in paragraph 7 to identify whether the work of internal audit is likely to be relevant to the external auditor's work. This aspect is only covered in the application material.

Paragraph 9. For reasons of clarity "shall consider" should be replaced by "shall evaluate".

Paragraph 10. In accordance with the previous wording and for reasons of clarity the word "audit" should be added before "procedures" and "intends to use" should be substituted for "uses". The new application material A7 would be better suited as a cross reference to paragraph 10 instead of paragraph 9.

Documentation

We are not sure of the logic in omitting the documentation requirements from this ISA, but including them in other ISAs e.g. ISA 540. In the absence of any full explanation of why the documentation requirements should be excluded from the text of ISA 610, we would suggest that the requirement is re-instated in ISA 610.

Application material

Paragraph A10. The previous wording, in paragraph 18 of ISA 610 was clearer. The wording "...the extent of the effect of the..." is unclear.