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Dear Mr Sylph

Proposed Clarified International Standard on Auditing 260 – Communications with those charged with governance

The Committee of European Banking Supervisors welcomes the opportunity to comment on the Proposed Clarified International Standard on Auditing 260 – Communications with those charged with governance (ISA 260)

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 welcome the clarity with which the ISAs are written and we only have minor points for comment. However, we do have concerns about the appropriateness of the objective of ISA 260 and, in some instances, about a lack of clarity which we feel could have an affect on the consistent application of the standard.

In the attached appendix we provide answers to the specific questions raised in the guide for respondents.

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 260 – Communications with those charged with governance

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

The current outcome for the objective focuses on communicating clearly with those charged with governance the responsibilities of the auditor and the scope and timing of the audit.

We believe it would be more appropriate to emphasise the need for mutual understanding and two way communication in this area.

As an example, the objective provided to the Consultative Advisory Group in May 2006 may be more appropriate:

This is as follows:

The objective of the auditor is to establish a mutual understanding of:

- (i) the respective responsibilities of the auditor, those charged with governance and management in relation to the financial statement audit;
- (ii) the scope and timing of the audit; and
- (iii) to provide those charged with governance with timely observations arising from the audit that are relevant to their responsibility to oversee the financial reporting process; and obtain from those charged with governance information relevant to the completion of the audit.

We would prefer the objectives stand alone without cross references to application material (A) as the cross references could be seen to limit the objectives in some way and this is not the intent. A1-A5 should refer to the relevant requirements.

The need for mutual understanding and two way communication could then be further elaborated in the requirement in paragraph 16 by adding the words, '..and expectations regarding two way communication.'

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.

Shall consider

As noted in our comment letter on the clarity project of 27 February 2006, ref.: 2006 02 23 (CEBS CL IAASB Clarity project), we believe that using the verb 'consider' in the requirement paragraphs may increase ambiguity and not promote consistency in auditor performance. We note in the Basis for Conclusions for the Revised Preface, published in January 2007, that shall consider 'will only be used in future where the 'auditor is expected to review a matter and evaluate whether it is applicable in the circumstances in order to make a judgement or decide on a course of action.' On this basis we would suggest that the 'shall consider' requirement in paragraph 19 should be 'evaluate' rather than 'consider'.

Paragraphs with no positive requirement

There are some paragraphs in the requirement section which do not specify any requirements. The status of these paragraphs is therefore unclear, as is the nature of any obligation attached to them. In particular, we suggest that paragraph 11 could be merged with A 2.

Paragraph 20 seems to be a negative requirement, yet with no requirement included ('the auditor need not...'). This paragraph could be included in the application material before A 46.

Lack of clarity, which may lead to inconsistency of application

There is a further lack of clarity about some of the requirements as follows:

(a) Paragraph 13 – states that the auditor is only communicating with those charged with governance an overview of the planned scope and timing of the audit. However, the associated A15-19 makes clear that this requirement does not solely relate to communicating an overview, but also covers communicating with those charged with governance to assist the auditor in planning the audit. The requirement paragraph should be clarified accordingly.

(b) Paragraph 15 is not clear. Auditors do not always communicate 'a statement'. Indeed there seems to be a mismatch between the more co-operative stem of this requirement (communication 'with') and the directed nature of the rest of the requirement (which is more about communication 'to').

(c) Paragraph 14 includes cross references to items to be communicated from ISA 315 and ISA 330. However, other items to be communicated which are covered in other ISAs are included in Appendix 1. It would be more consistent to include all references to other ISAs in the appendix.

(d) Paragraph 17, for items not covered by paragraph 15, emphasises oral communication rather than written communication. It does not emphasise clearly enough that for significant matters there should always be written communication. Oral communication can be very helpful and could also take place, but written communication should be the default form of communication for significant matters. The last sentence in this paragraph could be omitted and included in the application material.

(e) Paragraph 21 should cover the 'when, how and with whom' of any communications.

Consistency of application

The application of paragraph 15 is limited to listed entities, with an A27 that the requirements of paragraph 15 'may also be relevant in the case of some other entities, particularly those that may be of significant public interest...'. We believe that such communications would always be relevant for entities of significant public interest.

The IFAC Code of Ethics is currently being revised by the International Ethics Standards Board for Accountants. The revised Code extends the listed entity independence provisions to all entities of significant public interest. For consistency of application we believe the communication requirement in paragraph 15 should also apply to all entities of significant public interest.