



29 July 2005

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Dear Mr Sylph

Ref.: ISA 260: The Auditor's Communication with Those Charged with Governance

The Committee of European Banking Supervisors welcomes the opportunity to comment on the IAASB Exposure Draft: "The Auditor's Communication with Those Charged with Governance "(ISA).

Through their opinions on annual accounts and annual reports, external auditors constitute an integral part of the public oversight model. 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.

We generally welcome the revised ISA; however we do have some general comments and then some specific comments on aspects which many need clarification. In the attached note we provide our more detailed comments on the ISA. In particular we believe the ISA should emphasise to a greater extent the importance of two-way communication between the external auditor and those charged with governance.

Our comments were coordinated by our Expert Group on Accounting and Auditing (EGAA), and especially by its Sub-Working Group 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 EGAA, Prof Arnold Schilder (+31.20.524.3360), the deputy chairman of EGAA, Arnoud Vossen (+31.20.524.3903) or Miss Pat Sucher (+44.20.7066.5644).

Yours sincerely

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Comments

We have two general comments and then some specific comments, which are noted below in the order of the ED. We have no comment on the suggested use of the terms 'those charged with governance', 'management' and related terms.

The importance of two-way communication

The proposed ISA needs to place greater emphasis upon the importance of two-way communication between the auditor and those charged with governance. We support the principle set forth in paragraph 65 of the ED that the auditor should evaluate the adequacy of the two-way communication between the auditor and those charged with governance. In our view, however, the proposed ISA should make it clearer that the evaluation of two-way communication should be established early in the audit planning process. This should also be reflected by placing the principle earlier in the ISA.

In addition it could be made clearer that those charged with governance should also be expected to communicate matters such as information about fraud or expected fraud to the auditors.

Use of the present tense

The requirements in paragraph 22, 34 and 35, would be more appropriately phrased, as 'should' requirements rather than present tense requirements, as we believe they are necessary requirements. For example in paragraph 35, it is stated that 'the auditor explains to those charged with governance why the auditor considers a significant accounting practice not to be appropriate'. We presume that this would be more appropriately phrased as, 'the auditor should explain to those charged with governance why the auditor considers a significant accounting practice not to be appropriate'. Use of the present tense can cause ambiguity about the nature of the requirement.

Specific comments

Paragraph 19 – In the second sentence this states, 'Other matters required by this ISA are also included in the auditor's direct communications with those charged with governance, unless management agrees to communicate them to those charged with governance, and the auditor is satisfied that this is appropriate and such matters have been effectively and appropriately communicated by management.' The 'other matters' referred to seem to link to the items covered under paragraph 22 c-e and further developed in paragraphs 32, 43 and 46. This implies that these items are in some way less important in that they could be communicated to those charged with governance by management, rather than by the auditor. This does not seem appropriate for such matters as, 'other matters of which the auditor is aware and that the auditor judges to be serious.' (Paragraph 22e) We would therefore suggest that paragraph 19 is amended.

Paragraph 22 (f) - limits the communication to those charged with governance of matters concerning auditor independence only to listed entities. This statement is developed in bold paragraph 49. Paragraph 51 suggests that communications on auditor independence might also be appropriate for other entities, but the discussion is in the context of owner managed entities. We would suggest, in addition, that such communications on auditor independence should be necessary

for public interest entities such as banks and this should be added to paragraph 22 (f) or further developed in paragraph 51.

Paragraph 25 - (second bullet point) could be clarified to ensure that it is understood these are matters which arise during the course of the audit. The third bullet point also seems redundant as it is more fully explained in paragraph 26.

Paragraph 30 - should give more prominence to the risk analysis of the internal audit function and the reaction of those charged with governance to the risk analysis (when available or required). Also the views of those charged with governance concerning any communications from regulators could be mentioned.

Paragraph 35 - does it need to be made clearer here that this discussion of possible inappropriate accounting practices would only happen after discussions with management and if management had taken no action?

Paragraph 36 - could also mention restrictions imposed on the auditors by management. It might also be appropriate to have a cross reference to ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*.

Paragraph 41 - It would seem the word 'material' might have been omitted from the first mention of misstatements in the paragraph.

Paragraph 57 - we believe that all oral communications of a significant nature should be confirmed in writing.

Paragraph 60 - we are concerned that, as currently worded, there may be a risk to regulatory authorities that auditors would inappropriately withhold the prior written consent referred to in this paragraph. Therefore we would recommend that the second sentence of paragraph 60 be omitted. Paragraph 60 (c) should also be modified so that written communications can be disclosed to the supervisory authorities without the auditor's written consent.

Appendix - It would be useful to have a full appendix cross-referring to other ISAs where communication with those charged with governance is covered.