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Dear Mr Sylph

**Proposed International Standard on Auditing 500 (Redrafted)
Considering the Relevance and Reliability of Audit Evidence**

The Committee of European Banking Supervisors welcomes the opportunity to comment on the Proposed International Standard on Auditing 500 (Redrafted) Considering the Relevance and Reliability of Audit Evidence (ED)

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.

We appreciate the efforts of the International Auditing and Assurance Standards Board (IAASB) to clarify the auditing standard. However we are not convinced that the decision to change the focus in the original ISA from 'sufficient and appropriate audit evidence' to only a consideration of the 'appropriate' element of audit evidence in this ED, aids clarity in relation to such a fundamental aspect of the audit. We would suggest that the IAASB should revisit this aspect and include 'sufficiency' as well as appropriateness in both the objective of the ED, and in the requirements.

We provide more detail on this point, and other comments in response to the questions posed by the IAASB, in the attached appendix.

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



Daniele Nouy
Chair

Appendix

Comments on ISA 500, Considering the Relevance and Reliability of Audit Evidence (ED Overall organisation and clarity of the ED)

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

We believe the objective in this ED should be refocused in line with the original ISA to focus on the sufficiency as well as the appropriateness of audit evidence.

As noted in paragraph 7 of the ED, 'the sufficiency and appropriateness of audit evidence are interrelated.' Assessing whether the auditor has obtained sufficient audit evidence is related to the appropriateness of that audit evidence. In particular, where there is a greater risk of material misstatement, it is likely that the auditor needs to obtain more audit evidence, though this is also affected by the appropriateness of the audit evidence obtained.

In this audit standard which is focusing on the principles of 'how' the audit evidence is obtained, rather than the 'what' evidence relating to specific audit evidence, it would seem to us to aid clarity to re-instate the need for the auditor to obtain sufficient as well as appropriate audit evidence. Otherwise this interrelation is lost and the role of this ED in relation to the overall audit process is not clear.

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?

In line with our suggestion that the objective is revised to include sufficiency as well as appropriateness, we believe that an additional section should be included in paragraph 11 to deal with sufficiency.

Paragraph 11 could then read, 'When designing audit procedures, the auditor shall consider the sufficiency, the relevance and the reliability of the information to be used as audit evidence.'

This revised paragraph would then also link with the definitions in the ED.

Paragraph 4 of the introduction lays out the various procedures that can be undertaken to obtain audit evidence. As this is a core aspect of the ISA, we question whether the part of this paragraph, which refers to the different audit procedures, should be included as a requirement. Such a requirement could be placed after paragraph 11 and could be as follows:

'The auditor shall consider which of the following audit procedures, or combination of audit procedures, to obtain audit evidence would be most appropriate in the particular circumstances:

- Inspection
- Observation
- Confirmation
- Recalculation
- Reperformance
- Analytical procedures.

Although inquiry may provide important audit evidence, inquiry alone ordinarily does not provide sufficient audit evidence to detect a material misstatement at the assertion level, nor the operating effectiveness of internal controls.'

Paragraph 13 does not seem to link in any direct way to the objective of the ED (original or with suggested revisions). We would suggest that the link is made clearer. For example, by insertion after 'tests of detail....to obtain sufficient and appropriate audit evidence....the auditor (additional text in italics).

Other comments

Though we appreciate that this ED is a clarified ISA, we note that there is very little discussion in this ED of the concerns involved when assessing evidence which is either generated or received electronically. We would suggest that a few points on this could usefully be added to A 23 to reflect the way much communication and evidence in an audit may be generated electronically.