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Dear Mr Sylph

**Proposed Clarified International Standard on Auditing 320 - Materiality in planning and performing the audit**

**Proposed Clarified International Standard on Auditing 450 – Evaluation of Misstatements identified during the audit**

The Committee of European Banking Supervisors welcomes the opportunity to comment on the two ISAs *Proposed Clarified International Standard on Auditing 320 - Materiality in planning and performing the audit*; and *Proposed Clarified International Standard on Auditing 450 – Evaluation of Misstatements identified during the audit*

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 objective of ISA 320 and about consistent interpretation of how auditors should deal with prior year uncorrected misstatements.

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 320 – Materiality in planning and performing an audit (ED 320)**

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

We have two concerns here:

#### *Outcome orientation*

We do not believe the objective is sufficiently 'outcome oriented.' It sets no outcome for 'planning and performing' the audit which would guide the auditor. Therefore, on the face of it, any materiality level for any planning and performance of the audit could be appropriate.

A suggestion which might focus materiality, in the context of planning, on the outcome of the audit, is that the objective should include the following words (in italics)...'perform the audit *to reduce audit risk to an acceptably low level.*'

#### *References to application material*

We believe the objective should not need cross references to application material, but should stand on its own. The relevant parts of the application material could cross refer to the requirements.

### **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.**

#### *Presentation of the ISA*

Though not directly related to the requirements, we do note some inconsistency about the presentation of this ISA compared to others under the clarity project.

(a) There is a long introduction to the ISA. This does not seem entirely necessary, as some of the introduction is already covered in the application material e.g. paragraph 5 is covered by paragraph 2 of the Application Material. Some of paragraph 6 could also be included in the application material.

(b) No definition of materiality is provided. We would suggest that paragraphs 2 & 3 could provide the basis for a definition to encourage consistent application of the ISA.

## **ISA 450 – Evaluation of misstatements identified during the audit**

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

Yes.

### **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*

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' requirements in paragraphs 14 and 19 should be 'evaluate' rather than 'consider'.

*Consistency of performance regarding prior period uncorrected misstatements*

The guidance in A17 refers somewhat ambiguously to 'different acceptable approaches' in this area. We understand this to mean either considering the balance sheet or the income statement effect of the uncorrected misstatements. We believe that auditors, in evaluating the impact of uncorrected misstatements related to prior periods, should assess the impact on *both* the balance sheet and the income statement. It is not appropriate merely to focus on one of these aspects in assessing the materiality of misstatements. The current A17 seems to encourage consistency of performance within an audit firm, but not consistency of performance across audit firms in a way that maintains audit quality. Therefore we would welcome clearer guidance that auditors should evaluate both the income statement and the balance sheet impact of uncorrected misstatements related to prior periods.

Paragraph 15. The final sentence may benefit from further clarity that the auditor is addressing the misstatements individually and in aggregate. A suggestion is that the words, 'and in aggregate' should be added at the end of the paragraph.