

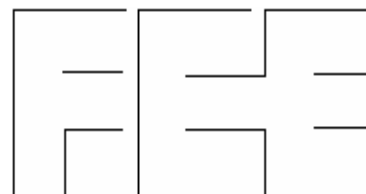
Date
14 February 2007

Le Président

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Mr. J. Sylph
Executive Director, Professional Standards
International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
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USA



Edcomments@ifac.org

Dear Mr. Sylph,

Re: Exposure Draft - Proposed Redrafted International Standard on Auditing (ISA) 260 (Revised) – Communication with Those Charged with Governance

FEE (Fédération des Experts Comptables Européens – European Federation of Accountants) is pleased, as the representative organisation of the European accountancy profession, to comment on the Exposure Draft - Proposed Redrafted International Standard on Auditing 260 (Revised) "Communication with Those Charged with Governance" (ISA 260).

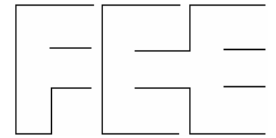
FEE supports ISA 260 as it is an improvement on the existing standard. We believe, however, that our comments which follow would further enhance the standard. This letter also includes our response to the questions set out in the proposed document.

Comments on objectives

As noted in our main comments in the FEE Comment Letter on ISA 260 of 28 July 2005, we agree that two-way communication between the auditor and those charged with governance is important. IAASB has tried to reflect this in the Objectives of ISA 260 by adding paragraph 5 (b) and by changing 'communication to' to 'communication with' in a number of paragraphs.

We note, however, that an auditing standard cannot impose two-way communication on those charged with governance and management, and care should be taken that the auditing standard does not result in unreasonable expectations of what auditors can achieve. In this respect, we note the inconsistency between the objective and requirements section, in that the auditor has to aim to achieve the 'obtain' objective in paragraph 5 (b) but there is, rightly in our view, no requirement in ISA 260 for the auditor that directly relates to the objective, the only relevant requirement being to assess the adequacy of the two-way communication and consider action to address any deficiency from an audit perspective, in other words consistent with the auditor's reporting responsibility.

In these circumstances we have considered whether paragraph 5 (b) should be deleted because achieving adequate two-way communication cannot solely be within the auditor's power, i.e. the onus should not be solely on the auditor to obtain information without any qualification. However, our preference is that it is reworded as "(b) *Communicate with Obtain from* those charged with governance, *to seek to obtain* information ~~relevant~~ necessary to the audit; and".



A less preferred alternative is “*Seek to obtain from those charged with governance information relevant to the audit*”.

As regards the rest of paragraph 5, to be consistent with the requirements and related application guidance we recommend (changes in italics):

- (a) is amended to “..... and *an overview* of the scope and timing of the audit”; see paragraph 13 in this regard; and
- (c) is amended to “..... that are *significant and* relevant to”.

Comments on requirements

Paragraphs 8 and 9

As paragraph 8 is conditional it will not be applicable to virtually all engagements and accordingly we believe it need not be a separate requirement.

Similarly, the contents of paragraph 9 is conditional, i.e. it applies only when the auditor intends not to communicate with a “body” that constitutes the entire complement of those charged with governance as determined in paragraph 7. In addition, although all entities will have governance, not all entities have such a subgroup. Therefore, this is likewise a departure from the criterion ‘The requirement is expected to be applicable in virtually all engagements to which the ISA 260 is relevant’ identified by the IAASB.

We recommend that the relevant contents of both paragraph 8 and paragraph 9 are included as subsets of paragraph 7, as follows:

“..... vary depending on the matter to be communicated. Matters that shall be considered include:

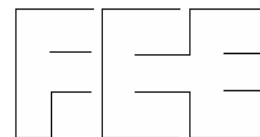
- (a) when [include the contents of existing paragraph 8]*
- (b) when there is a sub-group of those charged with governance, e.g. an audit committee, or an individual, the auditor shall consider whether such communication will adequately fulfil the auditor’s responsibility to communicate with those charged with governance. In some circumstances”*

Paragraph 11

Although Paragraph 11 is phrased as a negative, i.e. it does not include a ‘shall’ requirement, there is some merit in keeping the first sentence of Paragraph 11 in the Requirements Section. However, the second sentence is not essential guidance and should therefore be transferred to the Application Material.

Paragraph 12

The first sentence of Paragraph 12 is the requirement from the Close Off Document. The bullets under Paragraphs 12 (a) and (b) and the remainder of the paragraph should be included in the Application and Other Explanatory Material. Indeed, the communication by the auditor of these other responsibilities should be covered by other ISAs, for instance ISA 200 on ‘Objective and General Principles Governing an Audit of Financial Statements’, ISA 210 on ‘Terms of Audit Engagements’, etc. Therefore, we recommend eliminating these requirements from ISA 260 by moving them to ISA 200 and ISA 210 to which ISA 260 refers in its Application and Other Explanatory Material.



Paragraph 14

The second sentence of Paragraph 14 (a) 'When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice not to be appropriate and, when considered necessary, shall request changes' should not be included in the Requirements Section of ISA 260. Auditors identify inappropriate accounting policies as one of the causes of uncorrected misstatements. The wording duplicates the requirement in proposed redrafted ISA 450 on 'Evaluation of Misstatements Identified during the Audit' to communicate uncorrected misstatements. Instead it would be better to include a reference to ISA 450 in the Application and Other Explanatory Material of ISA 260.

Paragraph 19

Paragraph 19 includes the requirement in Paragraph 65 of the Close Off Document but the requirement had been changed from 'The auditor should evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If it has not, the auditor should take appropriate action.' to '.... If it has not, the auditor shall take appropriate action *to address the effectiveness of the communication process.*'

The addition of the italicised words is inappropriate as it implies that it is in the auditor's power to ensure those charged with governance communicate with the auditor. As explained in relation to the Objective this is unrealistic. Our preference is to retain the existing paragraph 65 words or change them to "The auditor should consider the implications for the audit".

Additionally, the guidance from Paragraph 68 of the Close Off document has been partially used in the requirement. This guidance should be read as a whole and is best presented as Application and Other Explanatory Material. The wording elevated to a requirement merely amplifies the requirement in the first part of Paragraph 19 to evaluate and act and is not necessary to achieve the Objective of ISA 260.

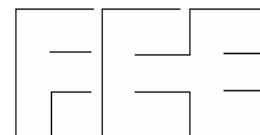
Comments on application and other explanatory material

Paragraphs A5 and A38

Paragraphs A5 and A38 include text similar to that of ISA 450. A7. As we stated in the FEE Comment Letter on ISA 450 of 15 February 2007, these paragraphs contain negative requirements which may apply in some, although not virtually, all engagement circumstances but which, when they apply, are fundamental to compliance with the requirements of ISA 260. The Preface to International Standards on Quality Control, Auditing, Review, Other assurance and related services of December 2006 refers to such situations, noting that an auditor cannot claim compliance with ISAs in such cases.

In this context, inclusion of these negative requirements in the Application and Other Explanatory Material is a significant issue in the light of the uncertainty in relation to the adoption (or not) and authority of the Application and Other Explanatory Material as part of the expected adoption of the ISAs by the European Commission. We therefore recommend they be placed in the requirements sections together with the requirements to which they relate.

Neither ISA 260 nor ISA 450 clarify what the auditor is expected to do in cases where laws or regulations prevent the auditor from communicating certain matters with those charged with governance. This risk of non-compliance with the ISAs is not recognised in ISA 260, which might have legal consequences. The reference to seeking legal advice in this paragraph is relevant but likewise is somewhat unhelpful.



Response to IAASB's Request for Responses on Questions

Is the objective to be achieved by the auditor, stated in the Proposed Redrafted ISA, appropriate?

No. We refer you to our comment on objectives.

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 judgment by auditors?

Not in all cases. We refer you to our comments on requirements in relation to Paragraphs 8, 9, 11, 12, 14 and 19.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Jacques Potdevin', written over a horizontal line.

Jacques Potdevin
President