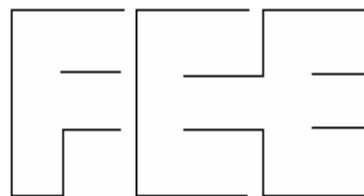


Date  
30 July 2007

Le Président

Fédération  
des Experts  
Comptables  
Européens  
AISBL

Avenue d'Auderghem 22-28  
1040 Bruxelles  
Tél. 32 (0) 2 285 40 85  
Fax: 32 (0) 2 231 11 12  
E-mail: [secretariat@fee.be](mailto:secretariat@fee.be)



Mr. J. Sylph  
Executive Director Professional Standards  
International Auditing and Assurance Standards Board (IAASB)  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York 10017  
USA

[Edcomments@ifac.org](mailto:Edcomments@ifac.org)

Dear Mr. Sylph,

**Re: Exposure Draft – Proposed (Revised and Redrafted) International Standard on Auditing (ISA) 200 “Overall Objective of the independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing”**

As the representative organisation of the European accountancy profession, FEE is pleased to comment on the Exposure Draft – Proposed (Revised and Redrafted) International Standard on Auditing (ISA) 200, “Objective of the independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing” (Proposed ISA 200).

FEE agrees that the redraft of ISA 200 is not the right place for theoretical discussion of a conceptual framework, but we wish to emphasise that FEE continues to support the development of such a framework by IAASB in the longer term. In the absence of such a framework FEE considers the Proposed ISA 200 is an improvement on the existing standard. We believe, however, that the suggested amendments which follow would further enhance the standard.

## **1. Comments on the title and the objective of the ISA**

We believe it is confusing to refer in different places in the proposed ISA to both the objective of an audit and the objective of an auditor. FEE recommends that the title of ISA 200 is changed to “*Objective and Conduct of an Audit of Financial Statements in Accordance with International Standards on Auditing*”. This would ensure that the order of the objective, as displayed within the Preface of December 2006 and within paragraphs 4 to 6, is maintained. The title preceding paragraph 4 would therefore also be modified, to Overall Objective. As far as practicable the words ‘objective of an audit’ should be used; the words ‘objective of the auditor’ should be used only where the context demands reference to the person rather than the process.

We note that the concept of ‘reasonable assurance’ is directly referred to within the context of the overall objective of the auditor as well as within the requirements section (see paragraph 19). Therefore, modifying the title and the objective of ISA 200 would also in our view distinguish more clearly between the objective and the requirements section of the proposed ISA.

## 2. Comments on Introduction

### *Paragraphs 7 and 8: Complete information*

FEE agrees with the content of paragraphs 7 and 8 on the preparation of the financial statements. Reference should however in our view be made to explanations as well as information, as we previously stated in our comment letter on Proposed ISA 580 of 18 April 2007.

### *Paragraphs 9 - 13: Reasonable assurance is subject to the inherent limitations of an audit*

FEE agrees with the main principles of the contents of paragraphs 9 through 13 and supports the main concepts being explained in more detail in the Application and Other Explanatory Material. However, we believe that some further explanation is needed in this section of the inherent limitations of an audit in order that the user of the ISA understands better why the auditor is only able to obtain reasonable assurance when performing an audit.

Accordingly, we recommend adding a new paragraph between the existing paragraphs 12 and 13, to help clarify the interrelationships between the concepts referred to in paragraph 13, as follows.

*"The auditor can only obtain reasonable assurance because:*

- *the nature of financial reporting and audit is such that there are legal and practical limitations on the auditor's ability to obtain audit evidence;*
- *often audit evidence is persuasive rather than conclusive;*
- *reporting is subject to risks of material misstatement in the financial statements from error and fraud that can be reduced but not eliminated by internal controls;*
- *the relevance of information and thereby its value tend to diminish over time. There is an expectation by users of financial statements that the auditor will form an opinion on the financial statements within a reasonable period of time and at a reasonable cost.*

*The auditor uses professional judgement to assess the risks of material misstatement and, maintaining an attitude of professional scepticism, designs and performs procedures to respond to the assessed risks. The auditor's professional judgment and scepticism are able to mitigate but cannot overcome the effects of these inherent limitations. "*

In addition, FEE suggests inserting in the first line of paragraph 13 the words 'taken as a whole' after 'The following concepts', in order to stress the fact that these concepts should be considered together.

## 3. Comments on Definitions

### *Paragraph 16 (e): Financial Statements*

Footnote 6 refers to the term 'single financial statement'. FEE recommends that IAASB gives examples in the application material of such a single financial statement, e.g. as was done in the supporting documents for the April 2007 IAASB meeting (appendix illustrating examples of a single financial statement). According to our understanding there is considerable confusion as to what constitutes a single financial statement. Clarification would encourage consistency in practice and avoid potential confusion as to what constitutes a single financial statement.

### *Paragraph 16 (h): Reasonable Assurance*

The proposed definition of reasonable assurance in paragraph 16(h) is very brief and we note that no further explanation of what is meant by reasonable assurance is provided in the Application and Other Explanatory Material. Our suggested additional paragraph to be included before paragraph 13 of the draft will in our view help, but we consider that third party users of the ISA could still interpret the word "high" in different ways and may not readily understand that the level of assurance that is reasonable will

vary rather than being a constant. We recommend the definition is more closely aligned with the other references to the assurance obtained in the section comprising paragraphs 9 through 13 and paragraph A 28 in particular.

In this context we are aware of strongly held views that the term 'high' cannot adequately be explained in terms of 'one level' of assurance, because the level of assurance that is reasonable will vary from assertion to assertion. For example, the proposed definition could conceivably be interpreted as meaning "high" in relation to:

- Absolute Assurance – the assurance that could be obtained if the auditor could be omniscient: this would imply that "high" would be the same for every assertion relative to absolute assurance; or
- Available Assurance– the assurance that could be obtained if auditors had unlimited powers (i.e., there were no constraints on an auditor's access to information etc); or
- Obtainable Assurance– all the assurance that could be obtained in an audit, if the auditor were not subject to time and cost constraints.

We recognise that IAASB may not wish to include such detail in the revised and redrafted ISA but nevertheless recommend that, as a minimum, the definition in paragraph 16(h) should have added at the end the words "having regard to (or taking account of) the inherent limitations of an audit".

## 4. Comments on Requirements

### *Paragraph 18*

FEE recommends that IAASB reconsiders whether the requirement in paragraph 18 is consistent with the requirement in paragraph 12 of ISA 240 (December 2006 version). FEE believes the requirement from paragraph 18 to be part of the requirement in paragraph 12 of ISA 240. In order to avoid repetition, it could be argued that proposed paragraph 18 should be deleted as unnecessary. Alternatively, a cross-reference to paragraph 12 of ISA 240 should be considered.

### *Paragraph 19: Obtaining sufficient appropriate audit evidence*

It is not clear whether paragraph 19 represents a requirement to obtain reasonable assurance. We recommend the paragraph be split into two parts and reworded as

*"The auditor shall obtain reasonable assurance that the financial statements as a whole are free from material misstatement. Reasonable assurance is obtained when the auditor has reduced audit risk to an acceptably low level.*

*In order to obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion."*

### *Paragraph 24: obligation attaching to objectives*

The proposed authority of objectives in paragraph 24 is an improvement on the previous versions. Therefore, FEE agrees that it is appropriate for an auditor to use the objectives in individual ISAs as an aid in judging whether the auditor has obtained sufficient appropriate audit evidence on the basis of the work performed, or alternatively whether the auditor needs to perform other audit procedures.

### *Paragraph 25*

To clarify the relevance of the requirement in paragraph 25, FEE suggests adding to the second and third sentences the words "Such a failure".

### *Paragraph 28*

Regarding line 2 of paragraph 28, FEE proposes the wording "to comply with the specific requirement of that particular ISA to enable the auditor to achieve the relevant objective", instead of the wording "to

achieve the aim of that requirement”. This amendment would better reflect the structure of the ISAs since the auditor performs work to comply with specified requirements which in turn enables the auditor to judge whether the objective has been achieved.

*Paragraph 29*

We believe paragraph 29 can be deleted as it is covered by paragraph 21.

## **5. Comments on Application Material**

*Paragraph A26*

We consider that in the last sentence the word ‘inappropriate’ should be used instead of ‘faulty’.

*Paragraph A62*

FEE proposes that the second sentence of A62 should be modified as follows:

*“In general, any conditionality of a requirement will either be explicit (e.g., the requirement to modify the auditor’s opinion where there is a limitation of scope), or implicit (e.g., the communication of material weaknesses in internal control identified during the audit to management and with those charged with governance, which depends on the existence of identified material weaknesses).”*

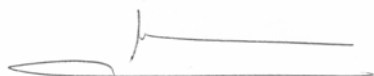
## **6. Considerations Specific to Public Sector Entities**

*Paragraph A47*

This paragraph explains that INTOSAI provide some guidance on the wider responsibilities of some public sector auditors. It would be helpful if this was expanded to additionally refer to guidance developed by government audit agencies and by local standard setters.

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

Yours sincerely,



Jacques Potdevin  
President

Ref.: AED/HB-EF/JP