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

Edcomments@ifac.org

Dear Mr. Sylph,

Re: Exposure Draft – Proposed Redrafted International Standard on Auditing (ISA) 530 Audit Sampling

As the representative organisation of the European accountancy profession, FEE is pleased to comment on the Exposure Draft – Proposed Redrafted International Standard on Auditing (ISA) 530 on Audit Sampling (Proposed ISA 530).

FEE considers the Proposed ISA 530 is an improvement on the existing standard. We believe, however, that our suggested comments which follow would further enhance the standard. This letter also includes our responses to the questions set out in the proposed document. We draw particular attention to our concern that without additional practical guidance the revised ISA 530 may impose an unreasonable burden on sole or smaller practitioners.

1.   Main Comment

Statistical versus non-statistical sampling

Although we are pleased that IAASB has not made statistical sampling mandatory, FEE is concerned about the increased emphasis put on this approach, which could represent a change in substance when Proposed ISA 530 is compared with extant ISA 530.

The increased emphasis results from the introduction of new concepts 'estimated maximum misstatement' and 'estimated maximum rate of deviation' in the definitions, the requirements in paragraphs 14 and 15, paragraphs A19 and A21 and the appendix on 'using estimated maximum misstatement to evaluate sample results'.

FEE agrees that statistical sampling is a possible sampling approach but believes that practitioners can perfectly well continue to apply a non-statistical approach in the majority of cases. This will particularly be the case with smaller practitioners, on which we comment further below. We strongly believe that the Proposed standard should adopt an even-handed approach rather than over-emphasise one approach over the other. Therefore while we do not conclude that the references to new concepts should be removed, nothing should be done in the finalisation of the ISA that would further increase the emphasis on statistical sampling.
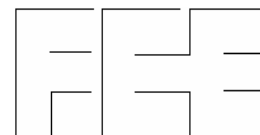
FEE recommends that the balance should be improved by reinstating the section of extant ISA 530 on 'Statistical versus Non-Statistical Sampling Approaches' including extant paragraphs 28 to 30, to explain that the decision whether to use a statistical or non-statistical approach is a matter for the auditor's judgment.

2. Other Comments

2.1 Comments on Objective

FEE supports objectives which focus on the desired outcomes of auditor behaviour. The objective in the Proposed ISA 530 appears to us to be too process-based. We suggest rewording paragraph 4 as follows:

"*The objective of the auditor when using audit sampling is to provide an appropriate basis for the auditor to draw conclusions about the population from which the sample is drawn*".

2.2 Comments on Requirements

Paragraph 13

Paragraph 13 uses the phrases "in extremely rare circumstances" and "high degree of certainty". Although we understand IAASB's caution in qualifying when an exception in a sample is truly an anomaly, the combination of these words seems excessive to us. We suggest delete "extremely" and replace "high" by "appropriate".

Paragraph 14

As ISA 450 requires the auditor to request management to correct all misstatements accumulated during the audit, and refers directly to ISA 530 in respect of projected misstatements, we believe it is necessary for ISA 530 to provide clear guidance on how to do this in practice. Various paragraphs of the exposure draft address aspects of the practicalities involved in arriving at the auditor's best estimate of misstatement in a population, e.g., A11 (last sentence - bias in sample selection), A15 (common features of misstatements), A19 (last three sentences - sampling risk), but there is no specific linkage between the contents of draft ISA 530 and the procedures required by ISA 450. FEE believes this should be addressed preferably through additional comments in the section on Projecting Sample Results in the Application and Other Explanatory Material.

2.3 Comments on Definitions

Paragraph 5 (a) - Audit sampling

We are surprised that the definition in 5 (a) is narrower than the current draft of the objective, which indicates that audit sampling extends to performing procedures and evaluating results in addition to selection. We suggest that a better definition would be: "The application of audit procedures to less than 100% of items within a population of audit relevance in order to draw a conclusion about the population from which the sample is drawn".

Paragraph 5 (b) - Population

In paragraph (b), the sentence beginning "For example …" is confusing because while all of the items in a class of transactions or account balance *may* constitute a population there will be many situations when the appropriate population for sampling will be only a part of an account balance, yet this is not mentioned even as an example. Our general view is that definitions should only include examples if essential to explain clearly what is meant. In this case either the alternative example should be given in the definition or different examples of populations should be given in the application material. As a minimum the word "may" should be inserted as indicated above.
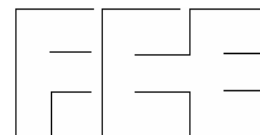
Paragraph 5 (h) - Tolerable misstatement

In accordance with ISA 320, the auditor applies the concept of tolerable misstatement to obtain reasonable assurance that the actual misstatements in the financial statements do not exceed materiality. This contrasts with the purpose of tolerable misstatement in ISA 530 for sampling a particular population. We agree with the definition of tolerable misstatement for the purposes of ISA 530. However, in order to prevent confusion, we recommend that any definition introduced into ISA 320 would need to read: "An amount with which the auditor seeks to obtain reasonable assurance that materiality is not exceeded by the actual misstatements in the financial statements."

2.4 Comments on Application and Other Explanatory Material.

General

Some of the deleted paragraphs of extant ISA 530 are worth repeating in the Application and Other Explanatory Material in Proposed ISA 530. They include:

- The material on 'expected misstatement' and 'deviation rate' in the examples in extant paragraph 34 could be included in paragraph A5 of Proposed ISA 530;
- The examples in extant paragraphs 8 and 20 would be useful to further clarify the definition of non-sampling risk in paragraph 5 (d) of Proposed ISA 530 which is currently somewhat brief;
- The concept of 'confidence levels' as included in extant paragraph 7 is we believe still relevant to an understanding of sampling. In the interests of clarification, it would be better to include a simple example of a confidence level as guidance to the definition of sampling risk in paragraph 5 (c) (ii) of Proposed ISA 530 (such as 95% confidence that a population is within 10% of the stated amount) rather than delete the term.

Paragraph A5

The last sentence of paragraph A5 appears to recommend an inefficient practice, which should preferably not be advocated in a standard. If the auditor is confident of the assessment he/ she should first request management to investigate whether there are misstatements and make adjustments prior to audit. This procedure is referred to in paragraph A21 as a possible response to sampling not providing an appropriate basis for conclusions. FEE therefore suggests that either the wording of the end of paragraph A5 is made consistent with paragraph A21 or that a cross reference is made to paragraph A21 before the last sentence in paragraph A5.

Paragraph A10

A sample size can also be determined by reference to tables that have regard to a statistical basis.

Paragraph A11

We consider the last sentence of paragraph A11 is unnecessary as the relevant points about representative samples have been made before. In this context we note that 'The auditor endeavours to' in the extant ISA has been replaced with 'it is important that' in the last sentence of this paragraph. We do not understand why this particular sentence in the application material has been singled out as "important". Presumably all of the guidance is important.

3. Responses to IAASB's Questions

3.1 Are the objectives to be achieved by the auditor, stated in the proposed redrafted ISA, appropriate?

No. We refer you to our comment above on the objective.

3.2   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 judgment by auditors?

We refer you to our main comment above on statistical versus non-statistical sampling and our comments above on requirements in paragraphs 13 and 14.

3.3   Special Considerations in the Audit of Small Entities

We refer you to our Main Comment above on statistical versus non-statistical sampling where we have expressed our concerns about the increased emphasis on statistical sampling in Proposed ISA 530. FEE is of the view that the paragraphs we have drawn attention to above may not be understood by sole or smaller practitioners performing audits of small entities; these paragraphs are in our view written for those familiar with statistical sampling.
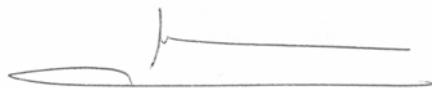
In more general terms, we submit that Proposed ISA 530 as a whole is difficult to read and understand, especially by small practitioners. It cannot be used on a stand-alone basis, most importantly in relation to the performance of statistical sampling for which further technical and practical guidance would need to be consulted. The definitions, application and other explanatory material and appendix are not particularly helpful in this respect.

We note that extant International Auditing Practice Statement (IAPS) 1005 contains three paragraphs relevant to ISA 530 (paragraphs 77 to 79). These paragraphs are not reflected in Proposed ISA 530. Given that IAPS 1005 is due to be withdrawn at a later stage some consideration of this material would seem appropriate.

For example, some additional guidance, particularly from paragraph 78, may be useful to auditors in a small and medium-sized environment, as otherwise the auditor may be driven to adopt a statistical sampling technique which may well not be the most appropriate in the engagement circumstances. The inclusion of considerations in the audit of small entities in the Application and Other Explanatory Material would help put Proposed ISA 530 into perspective. Sole or smaller practitioners will expect to apply the simplest approach possible to design, select and evaluate results of sampling tests, wherever practicable adopting standard processes. We recommend that guidance over and above that in the extant ISA 530 is needed in order that the final ISA does not impose an unreasonable burden on sole or smaller practitioners.

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

Yours sincerely,

Jacques Potdevin
President