

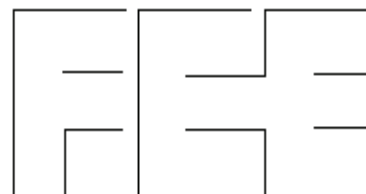
Date
31 March 2008

Le Président

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



Edcomments@ifac.org

Dear Mr. Sylph,

Re: Exposure Draft – Proposed Redrafted ISA 520 on Analytical Procedures

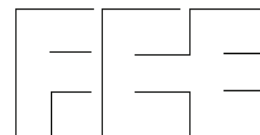
As the representative organisation of the European accountancy profession, FEE is pleased to comment on the Exposure Draft – Proposed International Standard on Auditing (ISA) 520 (Redrafted) on Analytical Procedures.

Main Comments

FEE believes that analytical procedures are significantly dependent on professional judgement. Accordingly, our more detailed comments below reflect our view that the requirements and application material should be principles-based and sustain this approach.

Limiting the scope of the proposed new ISA 520 to analytical procedures as substantive procedures and as procedures that assist in arriving at the auditor's overall conclusion in an audit of financial statements weakens the standard. FEE believes that

- (1) If the scope were restricted to substantive analytical procedures at least the document would have integrity. We have no particular concerns about the draft's approach to this use of analytical procedures, although we have made some suggestions for how the draft could be simplified and improved in this area;
- (2) However, content is also provided on final analytical procedures. We find this material weak, not least because paragraph A17 states that the procedures performed are often similar to preliminary analytical procedures (those performed as risk assessment procedures), yet no specific reference is provided to where such guidance can be found and risk assessment procedures are not dealt with in the proposed standard;
- (3) We would prefer that all objectives of analytical procedures are addressed in the same standard, as before. This may result in some overlap with ISA 315, but, in our opinion, this duplication is acceptable to ensure comprehensive and practical guidance is available to auditors;
- (4) If the IAASB decides to continue with its proposed approach of excluding risk assessment procedures from the scope, we recommend either that enough explanation of risk assessment procedures is included to strengthen the comments on how final analytical procedures should be performed, or consideration is given to excluding final analytical procedures from the standard so that it addresses substantive analytical procedures alone.



Other Comments

Introduction and definition

Paragraphs 3 and 7

We recommend that this paragraph also includes an example of the comparison of non-financial information with non-financial information, as given at the end of paragraph A8. Another example could be comparison of the number of employees (non-financial) in a hotel company with the number of hotels, average beds and average occupancy (all non-financial).

Currently the definition in paragraph 7 refers only to evaluations of financial information. As noted above assessing plausible relationships between two different elements of non-financial information can contribute to the auditor's evidence in relation to financial information. We therefore recommend the IAASB to reconsider the definition.

Paragraph 4

The draft recognises in paragraph 3 that comparisons with non-financial information can form a valuable part of analytical procedures. Accordingly, we recommend for consistency that the end of this paragraph should state *'financial and non-financial information'*.

Objectives

Paragraph 6

We believe that the objective in 6(a) will be improved if it does not repeat the phrase "in response/ responding to assessed risks" and if it is more outcome-oriented, focusing on the evidence obtained rather than referring only to procedures that are effective We recommend the second half is reworded:

"...., to design and perform such analytical procedures so that they provide appropriate audit evidence as to whether there is material misstatement in the financial statements at the assertion level."

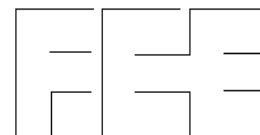
Requirements

Paragraph 7

FEE notes that the word "significant" is used in the ISAs in different contexts, for example to describe judgements requiring partner attention, matters that should be reported to those charged with governance etc. In previous letters FEE has emphasised to IAASB that care is needed both to be consistent in the use of such terms in the ISAs as a whole and to avoid translation difficulties that can arise when such terms as material, important, significant and serious are used unthinkingly.

Paragraph 7 introduces another use of the word "significant", in a context where we question its validity when compared to other uses of the word we have referred to above. All that is required in paragraphs 7 through 10 is used is to describe a situation requiring investigation. Such investigations may reveal no misstatement simply because the auditor's expectation was in the event shown not to be accurate enough.

We recommend instead of "significant" the ISA uses a phrase such as (using paragraph 10 as the illustration) *"... that differ from expected values by an amount that in the auditor's judgement requires investigation"*. There would be consequential impact on the various paragraphs affected of using such different phraseology.



Paragraph 8

FEE believes paragraph 8 would be simpler, clearer and would be more practicable for the auditor if the five sub-paragraphs are restructured as three sub-paragraphs as follows: combine the current (a) and (c) as the new a); combine the current (b) and (d) as the new (b); the existing (e) will become the new (c). Our recommended wording below has the following advantages: provides a more appropriate order; avoids the use of “Determine” in the context of designing appropriate analytical procedures. We believe the introductory word “Assess” more appropriately reflects the need for professional judgement; and uses “planned” in front of “tests of details” in (a) as the tests of details will typically only be planned at this point:

- (a) Assess the suitability of using substantive analytical procedures given the assertions, taking account of: the assessed risks of material misstatement and planned tests of details, if any, directed towards the same assertion; and the reliability of data, whether internal or external, from which the auditor’s expectation of recorded amounts or ratios is developed, taking account of source, comparability, and nature and relevance of information available, and controls over preparation;*
- (b) Develop an expectation of recorded amounts or ratios that is sufficiently precise to identify a misstatement that, when aggregated with other misstatements, may cause the financial statements to be materially misstated; and*
- (c) Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation as required by paragraph 10.

Application and Other Explanatory Material

Paragraph A6

We suggest that better examples are provided in paragraph A6 to explain when analytical procedures will or will not be suitable. We do not understand:

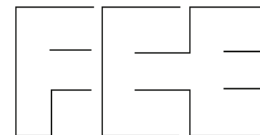
- (a) The relevance of sales order processing to the strength or otherwise of analytical procedures over assertions related to receivables. At least the word “order” could be dropped;
- (b) As ISA 501 requires inventory existence testing if inventory balances are material there is unlikely to be much scope for obtaining substantive evidence over existence from analytical procedures in most cases.

Paragraph A11

FEE recommends that this paragraph refers only to the possible lack of information in smaller entities rather than the unreliability of information, which we consider is not specific to Smaller Entities. We have the same point concerning ISA 315 conforming amendment paragraph A10; the first sentence therein should be restricted to commenting on the timeliness of processing and avoid reference to the lack of reliable financial information.

Paragraph A13

Paragraph A13 does not accurately reflect the approach of ISA 320 to materiality and to so-called tolerable error. In particular, there is no mention of undetected misstatements within the first sentence. We note that paragraph A13 of [Proposed] ISA 320 (Revised and Redrafted) states: *“Planning the audit solely to detect individually material misstatements overlooks the fact that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated, and leaves no margin for possible undetected misstatements. The amount or amounts the auditor determines for purposes of assessing the risks of material misstatement and designing further audit procedures to respond to assessed risks is set to reduce to an appropriately low level the probability that the total of uncorrected and undetected misstatements in the financial*



statements exceeds the materiality level or levels.”. Accordingly, we suggest the first sentence be expanded to include appropriate reference to this possibility.

Paragraph A17

As noted above in our main comments, paragraph A17 is unhelpful. If this proposed ISA is to include requirements for final analytical procedures, we recommend additional guidance is included from ISA 315 to explain the nature of the procedures that are expected to be performed.

Answers to the questions of ED ISA 705

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

No, as explained above.

- 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 reporting, and the use of professional judgment by auditors?**

Yes in principle but we have recommended some simplification and clarification.

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 black ink, appearing to read 'Jacques Potdevin'. The signature is written in a cursive style with a long horizontal stroke at the end.

Jacques Potdevin
President

Ref.:AUD/JP/HB-SH