

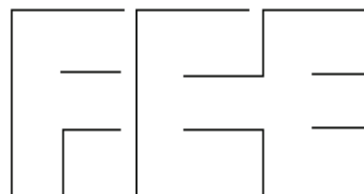
Date
15 April 2008

Le Président

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Mr. Jim Sylph
Executive Director Professional Standards
International Auditing and Assurance Standards Board (IAASB)
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Edcomments@ifac.org

Dear Mr. Sylph,

Re: Exposure Draft – Proposed Redrafted ISA 210: Agreeing the Terms of Audit Engagements and Related Conforming Amendments to Other ISAs

As the representative organisation of the European accountancy profession, FEE is pleased to comment on the Exposure Draft – Proposed International Standard on Auditing (ISA) 210 (Redrafted) on Agreeing the Terms of Audit Engagements and Related Conforming Amendments to Other ISAs (Proposed ISA 210).

FEE supports in principle the issue of the redrafted ISA but considers that the draft could be significantly clearer. We believe our recommendations below will help.

Main Comment

In our view the construction of the requirements section and the related application and other explanatory material in paragraphs A3 through A17 make Proposed ISA 210 difficult to follow. In particular: (a) FEE requests clearer explanation of the preconditions of an audit and the relationship between preconditions and premises; and (b) compared to the material on the preconditions of an audit, which will always be relevant, the material on the acceptability of the financial reporting framework will, in practice, be of much less relevance in the many jurisdictions that use well established financial reporting frameworks, such as IFRS. Accordingly, in our view, the IAASB should:

- Address as far as practicable the material on preconditions and premises in a more integrated way in the document (*i.e.* not separated by the material on the acceptability of the financial reporting framework), and
- Relegate the detailed material on the acceptability of the financial reporting framework, much of which is derived or repeated from other IAASB pronouncements, to an appendix, which can be appropriately cross-referenced. Failing that, paragraphs A5 to A10 should be moved to appear after paragraph A17.

We believe our other recommendations on the requirements paragraphs will also improve the clarity of the material on the preconditions and the framework.

Other Comments

Objective

FEE agrees with the objective of Proposed ISA 210, except that we consider the word 'necessary' should be deleted. A precondition is by definition necessary, an unnecessary precondition is not a precondition at all. The word 'necessary' is not used in most other parts of the ISA where 'precondition' appears.

Requirements

Paragraph 4

The sentence at the end of paragraph 4 repeats information dealt with elsewhere in the ISAs. Therefore, FEE proposes it is deleted.

Paragraph 4b (ii)

Paragraph 4(b)(ii) refers to the fact that the auditor shall receive all information required and have unrestricted access. FEE asks IAASB to clarify whether this means that no scope limitation is anticipated, to avoid perceived inconsistencies between paragraphs 4(b)(ii) and paragraph 5. In this context, FEE also requests IAASB to clarify the words 'other matters' in 4(b) (ii). It may help in this regard if the second comma, after documentation, is taken out of this sentence.

In line with our comments below on paragraph 8, we believe that paragraph 4(b) (ii) (a) needs to specify that this covers the period up to the issuance of the financial statements, i.e., when this is beyond the date of the auditor's report. Also, 4(b) (ii) (c) needs to refer to parties external to the entity.

Paragraph 6

The title preceding paragraph 6 gives the impression that this paragraph deals solely with the circumstances where the auditor determines not to proceed with the engagement, whereas the auditor can proceed if the requirements of paragraph 19 are met etc. It would be better to change the title to "Other matters affecting acceptance".

FEE finds paragraph 6 difficult to follow and proposes that the last sentence is reworded as follows:

"The auditor shall not accept the proposed audit engagement:

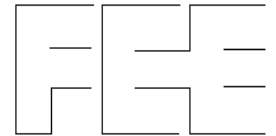
- *If the auditor has determined that the applicable financial reporting framework is unacceptable, unless the requirements of paragraph 19 are met, or the auditor is required by law or regulation to do so, or*
- *If the agreement referred to in paragraph 4 (b) has not been obtained."*

Paragraph 7

FEE considers that the words "or those charged with governance" should be replaced by "and, where appropriate, those charged with governance", following the wording in paragraph 6.

Paragraph 8

FEE considers that the following items currently mentioned in other ISAs and/or the application material should always be included in the engagement letter. Therefore they should all be included as additional points in paragraph 8, as follows:



“(f) The expectation that management and, where appropriate, those charged with governance, will provide written representation of matters requested by the auditor; [from ISA 580 and A 12 and A22] and

(g) The expectation that management will give the auditor permission to communicate or meet with the entity’s external legal counsel and request confirmations from third parties, at the auditor’s request; [from ISA 501 and ISA 505] and

(h) The agreement of management or those charged with governance to inform the auditor of facts that may affect the financial statements, of which management or those charged with governance may become aware during the period from the date of the auditor’s report to the date the financial statements are issued.” [from ISA 560]

Paragraphs 10 and 11

FEE agrees that in the circumstances described in paragraph 10 the auditor need not detail the terms of the engagement, however as a minimum the type of audit to be performed still needs to be agreed in writing. For example, terms of engagement should cover whether a statutory or voluntary audit is to be performed, the auditing standards that will be relevant and, where applicable, the legislation that will be relevant.

The frequent use of ‘may’ in these paragraphs indicates that either their content is not suitable for the requirements section or compliance with their contents as requirements will be impractical. As regards the latter it will prove difficult to argue that there are weaknesses in law and regulation which would result in the auditor having to impose wording in engagement letters that goes beyond law and regulation. FEE is of the opinion that the preconditions (or premises) of an audit need to be applicable on a world-wide basis in a consistent way. Thus how paragraphs 10 and 11 (and the guidance provided for these paragraphs) are to be applied needs to be clearer.

FEE also requests the IAASB to clarify: (a) whether paragraphs 10 and 11 are intended to apply outside the public sector; and (b) how ‘equivalence’ is to be determined.

Paragraph 12

FEE believes the paragraph could be improved by using the wording 'the terms of the *prior* audit engagement to be revised'.

Paragraph 17

In case there are jurisdictions where the prescription of the audit report wording precludes additional explanation, we recommend that paragraph A30 needs to address such circumstances.

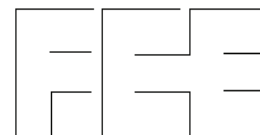
FEE proposes that the third last sentence should conclude “...the auditor shall not accept the audit engagement, unless obliged by law or regulation to do so”.

If the engagement is accepted – for example, the relevant law obliges the auditor to do so – given the fact such an audit “(...) does not comply with ISAs” we consider it needs to be clearer what the IAASB means by the ISAs being followed “...to the extent practicable”?

Paragraph 18

As the application material relates solely to explaining the “supplemental requirements”, FEE believes it would be clearer were the cross-reference to paragraph A31 placed after the first sentence.

FEE considers that a cross-reference to paragraphs 40 to 42 of Proposed ISA 700 in paragraph A31 of Proposed ISA 210 would be useful.



Paragraph 19

The “help” in paragraph A32 is in terms of “...use of that framework is not prescribed by law or regulation...”, yet paragraph 19 addresses a “prescribed framework”.

Acknowledging this is a financial reporting issue, not an auditing matter, there is an expectation that paragraph A32 recognizes the (probably real) possibility that the omission/s and/or breach/es within the inappropriate framework cannot be “repaired” merely by additional disclosure.

It is questionable whether, in the context of paragraph 19(b)(ii), the last sentence in paragraph A33 really helps. An additional sentence should be added to paragraph 19 (if that is the IAASB position) reproducing the third last sentence from paragraph 17.

Application and Other Explanatory Material

Paragraphs A3 to A10

FEE believes these paragraphs could be clearer in indicating that the auditor is not obliged to evaluate whether the framework is acceptable regarding valuation and presentation. For example, in relation to whether an auditor can still audit general purpose financial statements presented under a cash or fiscal accounting framework, the major question is whether the framework is sufficiently common and established; the auditor should not wonder about the potential needs of potential users.

Paragraphs A14 and A15

Throughout the exposure draft and the proposed conforming amendments there is no mention of reasonable assurance in the context of management’s responsibilities in relation to internal control. This should be rectified throughout.

Responses to IAASB’s Request for Responses to Questions

1. Do you agree with the proposed description of management’s responsibilities in the ISAs?

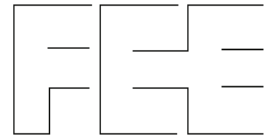
We refer to our comments above.

2. Do you agree that the description of management’s responsibilities in the terms of the audit engagement, written representations and auditor’s report may use the wording of the law or regulation if the auditor has determined that the law or regulation includes responsibilities that are equivalent in effect to those described in the ISAs?

We refer to our comments on proposed paragraphs 10 and 11.

3. Do you agree with the proposed conforming amendments to proposed ISA 700 (Redrafted)?

We note the proposed conforming amendments to paragraph 22 of ISA 700, in relation to management’s responsibilities. In the light of the focus of Proposed ISA 210 on the preconditions of an audit, as commented on in further detail in our Main Comments, we suggest that further consideration is given to whether paragraph 22 of ISA 700 ought to focus more on whether the preconditions for an audit are present, not just management’s responsibilities. Subject to this, FEE considers the proposals are pragmatic.



4. Are there any residual concerns about the way in which management's responsibilities are dealt with that may cause difficulty in any particular jurisdiction?

No.

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.:AUD/JP/HB-SH