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THE INSTITUTE  
OF CHARTERED  
ACCOUNTANTS  
IN ENGLAND AND WALES

Mr Jim Sylph  
Executive Director, Professional Standards  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, New York 10017  
USA

By email

Dear Mr Sylph

**Proposed Redrafted ISA 450 *Evaluation of Misstatements Identified During the Audit***

The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on Proposed Redrafted ISA 450 published by IAASB in October 2006.

The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 128,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

**We believe that the clarification reformatting has resulted in a more readable and user-friendly document than previous versions. Changes to the requirements will help ensure consistency of interpretation and improved audit quality.**

Please contact me if you wish to discuss any of the points raised in this response.

Yours sincerely

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## Objective

Is the objective to be achieved by the auditor, stated in the proposed redrafted ISA, appropriate?

**Yes.** The objective is oriented to the outcome of the financial statements being free of material misstatement and requires the use of judgement by auditors.

## Requirements

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 the following cases:

1. Paragraphs 5 and 20 (b) refer to the distinction between factual, judgemental and projected misstatements. We recall the long genesis of these distinctions and problems with previous drafts of this ISA that sought to treat different categories of misstatement in different ways. The distinction may be useful to enable auditors to understand different types of misstatement but it no longer serves any practical purposes under the ISA because auditors are required under the ISA to treat misstatements, whatever their nature, in the same way. **The requirement to make and document the distinction between factual, judgemental and projected misstatements should be removed from paragraphs 5, 20 (b), and from the definitions in paragraph 4. The distinction should be preserved in the application material or as introductory material.**
2. **Paragraph 8 is a conditional requirement and therefore not applicable in virtually all cases. It is a vague elevation from a present tense statement and should be relegated to application material.**
3. **We do not believe that paragraphs 15 to 17 are sufficiently clear to be included as requirements with the exception of the first sentence in paragraph 15. The remainder of the paragraph and the subsequent paragraphs merely follow on. They should be reworded and either included as essential explanatory material or relegated to application material.**
4. It is quite possible to view paragraph A7, dealing with laws or regulations that may prevent the auditor from communicating certain misstatements, as being fundamental to the ISA and therefore worthy of inclusion as introductory material. It is also possible to view the statement as being applicable in general terms to many audit areas (auditors being prevented from or compelled to do things because of law or regulation), and therefore worthy of inclusion in ISA 200 or the *Preface*. **The content of paragraph A7 should be considered for inclusion as introductory material and/or in ISA 200 or the *Preface*. Similar considerations apply to paragraph A5 of proposed redrafted ISA 260 *Communication with Those Charged with Governance*.**