



31 March 2008

Our ref: ICAEW Rep 39/08

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 520 ANALYTICAL PROCEDURES

The Institute of Chartered Accountants in England and Wales ('the Institute') welcomes the opportunity to comment on proposed ISA 520 and conforming amendments to ISA 315 published by the IAASB in December 2007.

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 130,000 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.

The proposed transfer of material dealing with analytical procedures as risk assessment procedures to ISA 315 leaves ISA 520 incomplete. It is important to have all the requirements and guidance relating to analytical procedures in the same standard. Analytical procedures are a critical area of the audit and to split the guidance is likely to lead to confusion, the risk that such procedures are not undertaken in an integrated manner and that important emphases and links are lost.

Otherwise, we believe that the clarification reformatting has resulted in a more readable and user-friendly document than previous versions. Other changes to the objectives and the requirements will help ensure consistency of interpretation and improved audit quality, as explained below.

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

Yours sincerely



Katharine E Bagshaw FCA
Manager, Auditing Standards
ICAEW Audit and Assurance Faculty
T + 44 (0)20 7920 8708
F + 44 (0)20 7920 8754
E: kbagshaw@icaew.com



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

Objective

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

No. The drafting of paragraph 6 (a) of the objective is repetitive, and focussed on the 'effective' manner of performance of analytical procedures.

The wording of the objective could be improved as follows:

...to design and perform appropriate substantive analytical procedures in response to assessed risks of material misstatement in the financial statements at the assertion level, and in arriving at the overall conclusion in an audit of financial statements.

A further change to accommodate the reinstatement of analytical procedures as part of risk analysis would also be required.

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:

Paragraph 8: points (a) and (c) on determining the suitability of analytical procedures and evaluating the reliability of data should be merged, and followed by merged points (b) and (d) dealing with expectations and their precision.

Paragraph 8 (c) deals with the reliability of data supported by A11 which wrongly states that unreliability is an issue for smaller entities. A lack of information, rather than unreliable information, is more specific to smaller entities. More could be made of the importance of analytical procedures in the audit of smaller entities.

Paragraph 9 is poorly supported by A17 which refers to analytical procedures performed at the overall conclusion stage being similar to analytical procedures performed at the risk assessment stage. It gives no guidance on the sort of procedures that would be used as risk assessment procedures. If the material on risk assessment procedures is kept in ISA 315, it would be helpful to give some examples of the type of procedures required in A17 and to provide a cross reference to ISA 315.

Paragraph 8 (a) - (e) is supported by A14, not paragraph 9 (a) - (d).

Specific matters on which comments were requested

Scope of IAS 520

See our covering letter, above. We understand the argument for keeping all of the guidance on risk assessment procedures together, and the desire to avoid the

duplication of material, but there is also a very strong case for keeping all of the material on analytical procedures together. In important areas such as these, some duplication may be the lesser evil.

Other

Paragraph A13: replace 'that' with 'than' in the last sentence.