



THE INSTITUTE  
OF CHARTERED  
ACCOUNTANTS  
IN ENGLAND AND WALES

31 March 2008

Our ref: ICAEW Rep 38/08

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 501 AUDIT EVIDENCE REGARDING SPECIFIC  
FINANCIAL STATEMENT ACCOUNT BALANCES AND DISCLOSURES**

The Institute of Chartered Accountants in England and Wales ('the Institute') welcomes the opportunity to comment on proposed ISA 501 published by the IAASB in December 2007.

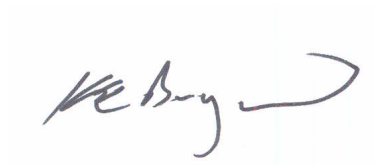
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**We believe that the clarification reformatting has resulted in a more readable and user-friendly document than previous versions. However:**

- ✉ **changes to the objectives and the requirements are necessary to ensure consistency of interpretation and improved audit quality, as explained below; and**
- ✉ **IAASB should give careful consideration to whether the material in this ISA would be better presented as application material to others ISAs given the highly procedural nature of the subject matter, the conditional nature of almost all of the requirements, and the lack of appropriate linkage to risk assessment.**

Please contact me should 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?*

**No.** If the material in this ISA is to remain in a stand-alone ISA the objective should make:

- ✎ reference to appropriate responses to risk assessment and materiality;
- ✎ reference to assertions other than, for example, the *completeness* of litigation and claims;
- ✎ no reference to segment information (see below).

The wording of the objective might start as follows:

*The objective of the auditor is, in response to assessed risks of material misstatement, to obtain sufficient appropriate audit evidence relating to material financial statements assertions regarding:..*

## 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:

#### ✎ *Inventory*

Paragraph 4 mandates auditor attendance at inventory counts by reference to the individual entity without taking account of the often sophisticated systems and controls implemented by groups. This approach effectively disregards controls in relation to the audit of inventory and can be read as inhibiting auditor consideration of the most effective and efficient way to obtain sufficient, appropriate audit evidence. This is an example of the effect of lack of appropriate linkage to risk assessments.

#### ✎ *Litigation and claims*

Paragraph 10 assumes that where the auditor assesses a material risk of misstatement with respect to claims, the most appropriate response is always to seek advice from external counsel. Although this will often be the most appropriate approach, the wide nature of claims and considerations concerning the timing of claims are such that approaching external counsel may not always be the most appropriate response. Many companies use internal counsel extensively to deal with the majority of claims, especially in the early stages, and lawyers' professional bodies prohibit lawyers from responding to enquiries of

auditors in many jurisdictions. Mandating the approach of paragraph 10 and requiring a modification of opinion for situations described in paragraph 11 (a) will not always be appropriate. The paragraph 11 (a) modification is in any case in conflict with paragraph 15 of proposed ISA 705 which permits auditors to perform alternative audit procedures in certain circumstances involving an imposed limitation of audit scope.

Paragraph 10 (b), which requires a meeting with lawyers *when considered necessary*, is too weak to be a requirement.

#### *Segment information*

Issues concerning the audit of segment information disclosures are no longer so unique or important as to merit separate detailed requirements and guidance.

#### **Specific matters on which comments were requested**

*Do you agree with the proposal to remove the requirement and guidance on auditing the valuation of long-term investments?*

**Yes.** Similar considerations apply to segment information.