



International Auditing and Assurance Standards
Board
Att: Technical Director
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA
E-mail: EDcomments@ifac.org

31 July 2007

Dear Sirs,

Re: Exposure Draft - Proposed ISA 250 (Redrafted), The Auditor's Responsibilities Relating to Laws and Regulations in an Audit of Financial Statements

BUSINESSEUROPE is pleased to comment on the above exposure draft. BUSINESSEUROPE is the voice of European Business, representing more than 20 million small and large companies. Our members are central industrial and employers' federations from 33 countries.

The introduction

In the course of the clarity project, the introduction is becoming longer and longer. We noted this in regard of ISA 550 and the same goes for the ISA.

Further, looking at the contents of the introduction, the issues should be addressed in ISA 200, not ISA 250. As a consequence we suggests that the paragraphs 3 to 6 are deleted and that the contents, if necessary, are added to ISA 200.

Should paragraph 3 remain, BUSINESSEUROPE would like to highlight the following in the paragraph. ISA 200 outlines the presumptions of the audit and clearly states (in the present exposure draft) that ISAs do not impose responsibilities on management (ISA 200, paragraph 8). BUSINESSEUROPE supports this phrasing. However, this is not harmonious with the phrasing of paragraph 3 in ISA 250. BUSINESSEUROPE do not support a paragraph imposing further responsibilities on management as BUSINESSEUROPE firmly believes that the responsibility of the Management should be governed by Company Law including local Corporate Governance Codes, not auditing standards. We therefore urge IAASB to align the phrasing with the phrasing in the draft ISA 200 paragraphs 7 and 8 recognising in particular the highlighted parts:

"An audit by an independent auditor **is premised on the fact** that the financial statements subject to audit are those of the entity, prepared and presented by management of the entity with oversight from those charged with governance, with the



auditor engaged for purposes of forming and expressing an opinion on them. The audit of the financial statements does not relieve management and those charged with governance of their responsibilities. The auditor is also entitled to expect that management and those charged with governance will make available to the auditor all the information the auditor requires for the purposes of the audit.

Accordingly, **although ISAs do not impose responsibilities on management and those charged with governance and do not override laws and regulations that govern their responsibilities, ISAs are written, and audits are conducted, on the premises that management and, where appropriate, those charged with governance:**

- a) Acknowledge and understand their responsibility for preparing and presenting the financial statements in accordance with the applicable financial reporting framework;
- b) Acknowledge and understand their responsibility for designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; and
- c) Will provide complete information to the auditor."

BUSINESSEUROPE would prefer that paragraph 3 was deleted and that the contents, if necessary, were added to ISA 200 paragraph 8. BUSINESSEUROPE would also like to stress that it is not only the auditors that are subject to inherent limitations. The same goes for the management. Even the best internal control systems cannot provide the entity with absolute assurance. Thus the auditing standards should acknowledge this and the starting point should be that management is responsible for **monitoring** that the entity's operations are conducted in accordance with laws and regulations or for **monitoring** the prevention and detection for non-compliance with laws and regulations.

Further, BUSINESSEUROPE would like to refer to the paragraphs 9 to 12 of the ISA 200 exposure draft. BUSINESSEUROPE acknowledges the efforts already made to align the paragraphs somewhat to ISA 200. However, when reading those paragraphs, paragraphs 4 to 6 of this exposure draft should be reduced or deleted, referring some of the contents to application guidance in ISA 200. Further, we would like to note, that paragraph 4 has been changed when compared to the extant paragraph 11 and that the changes in our view also impose some changes in the contents of the paragraph.

Q1: Are the objectives to be achieved by the auditor, stated in the proposed redrafted ISA, appropriate?

BUSINESSEUROPE finds the objective too detailed. It is more a listing of requirements than an objective. Thus, BUSINESSEUROPE would like the IAASB to revisit the objective. The objective should stress both the link to other audit procedures and the fine balance between material vs. non-material while being outcome orientated, for instance by the following wording:

The objective of the auditor is to ensure that the special significant/material considerations due to laws and regulations have been properly addressed and documented in the audit process when performing an audit of financial statements.

This phrasing also caters for paragraph 1, as it only refers to "audit of financial statements"

Q2: 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 judgement by auditors?

Extant paragraph 8

BUSINESSEUROPE supports the deletion of paragraphs such as extant paragraph 12 that only contains cross references to other ISAs.

Paragraph 12

Paragraph 12 has been subject to some changes in the phrasing when compared to the former paragraph 18. This do not appear in the mapping document. BUSINESSEUROPE presumes that the changed wording do not change the audit procedures. However, according to especially the present but also to an extent the prior phrasing it is presumed that there are instances of non-compliance with other laws and regulations. BUSINESSEUROPE would like to underline that business strives to be in compliance with laws and regulations. However, BUSINESSEUROPE would suggest that a "if any" is added in paragraph 12 it should be placed as follows:

"In addition, the auditor shall perform the following audit procedures to help identify instances, **if any**, of non-compliance with other laws and regulations that may have a material effect on the financial statements:"

Paragraph 14

The requirement for the auditor to obtain written representations is to be addressed in ISA 580, as this requirement in our opinion clearly is a general written representation, not a specific one. Further, it is our belief that the request is already covered by the general written representation, thus we would suggest a deletion of this paragraph.

Paragraph 18

BUSINESSEUROPE supports the requirement (and thus the elevation), but would like to re-establish the reference to the entity's lawyer in the requirement. At the time being, this reference is only maintained in the application material.

Further, BUSINESSEUROPE would like to stress that this requirement is only applicable to the limited circumstances where information, as described in paragraph 16, may have a *material effect* on the financial statements.



Paragraph 19

BUSINESSEUROPE fails to understand the need for paragraph 19 as we are of the opinion that the auditor is in general required to evaluate the effect of the lack of sufficient appropriate audit evidence as part of the audit process. If the lack of sufficient audit evidence is due to the impossibility to document a **suspected** (but not a demonstrated or established) non-compliance, then we would be very hesitant to establish a link between an undocumented suspected non compliance and a possible effect on the auditor's opinion.

Paragraph 21

According to the extant paragraph 32, the auditor did not need to communicate directly with those charged with governance, if the auditor "obtained audit evidence that they are appropriately informed". As part of the redraft this has been omitted. We would like to reinstate this principle and would like the IAASB to reconsider the phrasing of paragraph 21 taking into consideration that those charged with governance may already be appropriately informed by the management.

Extant paragraphs that have been treated as application and other explanatory material
BUSINESSEUROPE supports the treatment of the in the exhibit I section II mentioned paragraphs as application material.

Q3: Are there any potential translation issues?

No specific comments.

Special considerations in the Audit of Small Entities.

No specific comments.

Special considerations in the Audit of Public Sector Entities.

No specific comments.

If you have any questions to the above, please do not hesitate to contact Kristian Koktvedgaard (kko@di.dk)

Yours sincerely,

Jérôme P. Chauvin
Director, Legal Affairs