

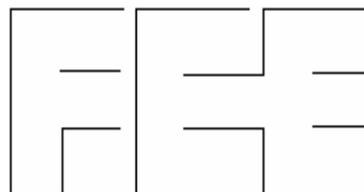
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14 February 2007

Le Président

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Mr. J. Sylph  
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International Auditing and Assurance Standards Board  
International Federation of Accountants  
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[Edcomments@ifac.org](mailto:Edcomments@ifac.org)

Dear Mr. Sylph,

**Re: Exposure Draft - Proposed Redrafted International Standard on Auditing (ISA) 450  
Evaluation of Misstatements Identified during the Audit**

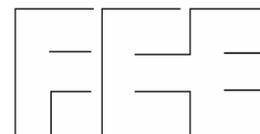
FEE (Fédération des Experts Comptables Européens – European Federation of Accountants) is pleased, as the representative organisation of the European accountancy profession, to comment on the Exposure Draft - Proposed Redrafted International Standard on Auditing 450 “Evaluation of misstatements Identified during the Audit” (ISA 450).

FEE supports ISA 450 as it is an improvement on the existing standard. We believe, however, that our comments which follow would further enhance the standard. This letter also includes our responses to the questions set out in the proposed document.

**Required categorisation of misstatements (paragraphs 5 and 20 (b))**

We do not agree that it should be a requirement to distinguish between the three categories of misstatement referred to in paragraph 5, or to document the distinction as required by paragraph 20 (b). First, the remainder of the requirements in ISA 450 do not rely upon the distinction being made (for example paragraph 9 requires the auditor to request management to correct all misstatements, irrespective of their category); second, the purpose of making the distinction to achieve the objective is unclear, hence in our view these requirements are unjustified. Such requirements could also be difficult to apply in practice since there may not always be a clear dividing line between the different types of misstatement. If the auditor is not able to achieve the right classification, the auditor will not be able to comply with all the requirements of this ISA.

We do not object to the statement in the Close Off Document that it is useful to distinguish between factual, judgemental and projected misstatements. This may assist the auditor in considering the effects of misstatements accumulated during the audit and in communicating them to management and those charged with governance. However, the auditor can evaluate whether the misstatements are material based on their nature and respond accordingly without having to document by category. This documented categorisation places an unnecessary burden on the auditor and is unnecessary to meeting the objective.



Therefore, FEE considers that such categorisation should not form part of the requirements, including the documentation requirements, but should form part of the Application and Other Explanatory Material. We propose that the relevant parts of paragraphs 5 and 20 (b) be amended accordingly.

## Comments on definition

### *Paragraph 4*

The Preface to International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services of December 2006 states that the separate section under the heading '*Definitions*' is '*provided to assist in the consistent application and interpretation of the ISAs*'. This does not clarify whether definitions are only related to requirements or also to Application and Other Explanatory Material. On the basis that the categorisation of misstatements becomes part of the application material and no longer part of the requirements, it is therefore not clear to us whether the explanation of these different types of misstatement should be retained at the level of the definition or rather have their meaning explained in Application and Other Explanatory Material.

Furthermore, as the list from (i) to (iv) in Paragraph 4 (d) is not exhaustive, it is recommended that it is placed in application material together with the last sentence of Paragraph 4 (d) '*Misstatements can arise from error or fraud and may result from:...*'.

## Comments on other requirements

### *Paragraph 9*

Application guidance is needed on paragraph 9 in order to explain that the auditor only requests management to correct projected misstatements for which the auditor is satisfied that the sampling technique has been applied in such a way that it is capable of providing a high level of confidence as to both the likely occurrence and magnitude of the projected misstatement. This application material should be cross-referenced to ISA 530.54.

### *Paragraphs 15, 16 and 17*

Paragraph A20 states that it is not always necessary to address uncorrected misstatements individually when communicating to those charged with governance. As this could apply in a significant number of cases the requirement expressed in the last sentence of paragraph 15 *cannot be* applicable in virtually all engagements, hence it should not be a requirement. This sentence should be placed in the application material.

We consider paragraphs 16 and 17 are explanation of paragraph 15 and need not be separate requirements. Such communication should not be constrained by rules; it is a matter for the auditor's judgement how best to communicate the reasons for and the implications of a failure to correct misstatements.

We recommend that the relevant contents of both paragraph 16 and paragraph 17 are included as subsets of paragraph 15, as follows:

*"..... shall form part of this communication. Communications that shall be considered include:*

- (a) The reasons for, and the implications of ..... [to end of existing paragraph 16]*
- (b) The effect of uncorrected misstatements related to ..... [to end of existing paragraph 17]"*

## Comments on Application and Other Explanatory Material

### *Paragraph A7*

Paragraph A7 includes text similar to that of ISA 260.A5 and A38. As we stated in the FEE Comment Letter on ISA 260 of 15 February 2007, this paragraph contains a negative requirement which may apply in some, although not virtually, all engagement circumstances but which, when it applies, is fundamental to compliance with the requirements of ISA 450. The Preface to International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services of December 2006 refers to such situations, noting that an auditor cannot claim compliance with ISAs in such cases.

In this context, inclusion of this negative requirement in the Application and Other Explanatory Material is a significant issue in the light of the uncertainty in relation to the adoption (or not) and authority of the Application and Other Explanatory Material as part of the expected adoption of the ISAs by the European Commission. We therefore recommend that it be placed in the requirements section together with the requirement to which it relates.

Neither ISA 260 nor ISA 450 clarify what the auditor is expected to do in cases where laws or regulations prevent the auditor from communicating certain matters with those charged with governance. This risk of non-compliance with the ISAs is not recognised in this ISA, which might have legal consequences. The reference to seeking legal advice in this paragraph is relevant but likewise is somewhat unhelpful.

## Response to IAASB's Request for Responses on Questions

**Is the objective to be achieved by the auditor, stated in the Proposed Redrafted ISA, appropriate?**

Yes.

**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 all cases. We refer you to our comments on the requirements in paragraphs 5, 9, 15, 16, 17 and 20 (b).

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours sincerely,



Jacques Potdevin  
President