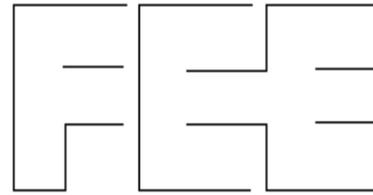


Date
31 March 2008

Le Président

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Mr. Jim Sylph
Executive Director Professional Standards
International Auditing and Assurance Standards Board (IAASB)
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA

Edcomments@ifac.org

Dear Mr. Sylph,

Re: Exposure Draft – Proposed Redrafted ISA 501 on Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures

As the representative organisation of the European accountancy profession, FEE is pleased to comment on the Exposure Draft – Proposed International Standard on Auditing (ISA) 501 (Redrafted) on Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures (Proposed ISA 501).

FEE believes that our comments which follow would enhance the standard. This letter also includes our responses to the questions posed in Proposed ISA 501.

1. Main Comments

1.1. Objectives

Although we understand that the standard is a “technically oriented standard”, i.e., providing additional guidance to other ISA requirements, the standard is not sufficiently aligned to the risk based approach. No reference is made to ISA 315 and ISA 500, nor to materiality. For example there are neither requirements nor application material relating to planning and testing of internal controls in relation to the audit of inventory.

For these reasons, FEE recommends that the objective be reworded as follows: “The objective of the auditor is to obtain sufficient appropriate audit evidence on material relevant assertions regarding:...”

1.2. Litigation and Claims

Paragraph 10

In the context of paragraph 10 (a) we note that, in many countries, legal counsels, in compliance with recommendations or regulations issued by their professional body, do not respond to general enquiries from auditors even though the mutual client undertaking has formally granted the auditors authority to make such enquiry. It would be helpful were this fact acknowledged in paragraph A21 as the most common reason why a letter of general inquiry is not responded to.

We are aware that in certain European Union jurisdictions agreement has been reached between the professional body of legal counsels, often referred to as the Bar Council, and the audit profession on the following procedure: management send the enquiry letter to the lawyers indicating explicitly that a) the letter is sent at the request of the auditor and b) that management will give a copy of the lawyer's response to the auditor. Although this is not "direct communication", it could be an appropriate alternative which merits mention in the Application and Other Explanatory Material.

The conditional nature of the requirement in paragraph 10 (b), clarified further as an option in paragraph A22 through the use of the words "may consider it necessary", acknowledges that frequently the auditor may not consider it necessary to meet with the external counsel because, for example, the matter is not particularly complex. Accordingly, we consider the issue is better dealt with solely in Application and Other Explanatory Material.

Paragraph 11

Where management refuses to give the auditor permission to communicate with the entity's external legal counsel, paragraph 11(a) obliges the auditor to modify his opinion.

This appears to be inconsistent with paragraph 15 of proposed redrafted ISA 705 which allows the auditor to determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence on which to base an unmodified opinion, even though the limitation of scope has been imposed by management. This is also a substantial change from paragraph 37 of the extant ISA 501, in that it excludes the possibility of appropriate alternative audit procedures. If the requirement is restated to allow for alternative audit procedures, additional commentary will be needed in Application and Other Explanatory Material.

Paragraph 11(b) envisages the possibility of alternative audit procedures in circumstances where legal counsel "...refuses to respond appropriately...". We recommend that feasible examples of such procedures are included in the Application and Other Explanatory Material.

1.3. Comments on segment information requirement

FEE does not see what is special or unique in the audit of segment information disclosures, as opposed to the audit of other disclosures such as, for example, categorisation of fixed assets, which merits separate detailed requirements and guidance. Consequently, FEE suggests that Paragraphs 14, A24 and A25 be deleted.

Should the IAASB not accept our suggestion to delete paragraph 14, we note this paragraph states that the auditor obtains evidence "... by preparing analytical procedures and other procedures...", without saying what type of analytical procedures these will be. We consider it will generally be both impractical and unnecessary to do substantive analytical procedures as per paragraph 8 of proposed redrafted ISA 520. This paragraph or the accompanying Application and Other Explanatory Material should clarify that the purpose of the analytical procedures is akin to the final analytical procedures type work in proposed redrafted ISA 520, "to assist in

arriving at an overall conclusion as to whether the segmental information is consistent with the auditor's understanding of the entity" rather than to obtain substantive evidence that there is no risk of material misstatement in relation to the presentation and disclosure assertion.

2. Other Comments

2.1 Comments on requirements

Paragraph 7

In order to clarify the situation envisaged, we suggest rewording the beginning of paragraph 7 as follows: If attendance at the entity's physical inventory count is impracticable, both on the date of the count and on any relevant alternative date, the auditor shall obtain..."

Paragraph 10

Paragraph 10 describes circumstances in which the auditor shall seek direct communication and, if deemed necessary, meet with the entity's external counsel. FEE would prefer the second indicator in the introductory sentence to be expressed as "...the auditor has reason to believe that other litigation..."

Paragraph 13

To clearly reflect the primary responsibility of those charged with governance for the financial statements, we propose the ending of this paragraph be reordered to "...when preparing the financial statements have been appropriately dealt with in those financial statements and disclosed to the auditor."

2.2 Comments on Application and Other Explanatory Material

Paragraph A11

In order to enhance the examples given in paragraph A11, the second sentence of paragraph A11 could be revised as follows: "Examples of such circumstances would include inventory held in a remote location where infrastructural deficiencies and/or extremes of climate mean access on, or close to, a particular date, is not possible, the location poses potential threats to the auditor's safety or well-being, etc." Another factor where attendance at the entity's physical inventory count is impractical is where the auditor has been appointed after year-end and the predecessor auditor, if any, did not attend the physical inventory observation.

Paragraph A21

In order to better clarify the situation envisaged in paragraph A21, we suggest that the first sentence be modified as follows: "If it is considered unlikely because of legal practice that the entity's legal counsel..."

Paragraph A21(c)

It should be noted that in jurisdictions where a general enquiry will not be responded to, for the reason discussed in Section 1.2 above, it is unlikely legal counsel will advise where matters have been omitted from the specific enquiry.

2.3. Translation issues

English speaking countries sometimes draw a distinction between “enquiry” – where one is seeking information in general social or business circumstances – and “inquiry” – where information is sought as part of a formal investigation, generally under judicial control. Accordingly, we propose that the word “enquiry/ies” or “enquire/s be used throughout the Proposed ISA 501, especially as one of the subject matters of Proposed ISA 501 relates to litigation and claims.

3. Responses to IAASB’s Request for Responses to Questions

3.1. Views on the proposal to remove the requirements and guidance on auditing the valuation and disclosure of long-term investments.

FEE agrees with this proposal.

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

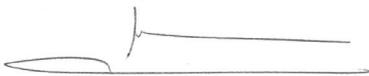
No. Please refer to our comments on the objectives.

3.3. 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 reporting, and the use of professional judgment by auditors?

No. Please refer to our comments on paragraphs 10 and 11.

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

Yours sincerely,



Jacques Potdevin
President