



BASEL COMMITTEE ON BANKING SUPERVISION

BANK FOR INTERNATIONAL SETTLEMENTS

Chairman

**VIA ELECTRONIC MAIL:
edcomments@ifac.org**

Mr Jim Sylph
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**IAASB exposure draft ISA 250 (redrafted), The Auditor's Responsibilities
Relating to Laws and Regulations in an Audit of Financial Statements**

Dear Mr Sylph

The Basel Committee on Banking Supervision (the Committee) welcomes the opportunity to comment on your recent exposure draft. The Committee has a strong interest in high quality and independent audits of banks and has carefully analysed the proposal captioned above.

We appreciate the efforts of the International Auditing and Assurance Standards Board (IAASB) in clarifying the auditing standard to enhance auditor performance in an audit of financial statements and improve the clarity of the language within the standard to more clearly describe the responsibilities of the auditor. Please find our detailed comments in the attached appendix. These comments have been prepared by the Committee's Accounting Task Force, chaired by Ms Sylvie Mathérat, Director of the Commission Bancaire in France, and have been approved by the Committee. The Committee trusts that you will find its comments useful and constructive.

If you have any questions regarding our comments, please feel free to contact Sylvie Mathérat (+33 1 4292 6579), Marc Pickeur, who chairs the Audit Subgroup of the Accounting Task Force (+32 2 220 5253), or Linda Ditchkus at the Basel Committee Secretariat (+41 61 280 8007).

Yours sincerely,

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Appendix

Basel Committee comments on IAASB exposure draft ISA 250 (redrafted), The Auditor's Responsibilities Relating to Laws and Regulations in an Audit of Financial Statements

1. Introduction

The Basel Committee on Banking Supervision¹ (the Committee) has a strong interest in high quality and independent audits of banks and has carefully analysed the proposed redrafted International Standard on Auditing (ISA) pertaining to the auditor's responsibilities relating to laws and regulations. The remainder of this appendix highlights certain issues, questions and suggestions for the Board's consideration.

2. Responses to the IAASB's questions

(1) Are the objectives to be achieved by the auditor, stated in the proposed, redrafted ISA, appropriate?

The objectives should be outcome focused and drive appropriate auditor behaviour in line with the requirements. Paragraph 8(b) of the proposed objectives refers to performing "specified procedures", which seems to be focused on the process of performing the audit rather than the objectives in performing the audit.

We understand that the auditor's responsibilities cannot be open-ended with an objective that identifies the need to consider *all* laws and regulations that may have an impact on the financial statements. However, to set an objective that states that the auditor should perform specified procedures seems to us to emphasise that the auditor has to evaluate whether he/she has carried out the procedures rather than use his/her judgement about the effect of any identified instances of non-compliance with certain laws and regulations. This emphasis on procedures is unlikely to drive appropriate audit behaviour.

Essentially, paragraph 8(b) is dealing with those laws and regulations that cover the firm's conduct of business. In some sectors, eg banking, the laws and regulations covering conduct of business can have a "fundamental effect on the operations of the entity" (paragraph A8).

¹ The Basel Committee on Banking Supervision is a committee of banking supervisory authorities, which was established by the central bank Governors of the Group of Ten countries in 1975. It consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States. It usually meets at the Bank for International Settlements in Basel, where its permanent Secretariat is located.

We would suggest that paragraph 8(b) be revised to become outcome oriented. This could be done as follows:

“To conclude, based on the audit evidence obtained, whether instances exist of non-compliance with other laws and regulations that may have a material effect on the financial statements and, if such non-compliance exists, to consider the implications for the auditor’s report”

The objectives in paragraphs 8(a) and 8(c) should be retained.

(2) 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?

The reference to “audit report” in various parts of the extant ISA 250 has been changed to “audit opinion” in the redrafted ISA. This may be in line with the revised ISAs 700 and 705, but it may not always be appropriate for ISA 250 because, as indicated in paragraph A5, there may be duties to report non-compliance with laws and regulations in the audit report which may not affect the audit opinion.

We note the omission of “Discuss the legal and regulatory framework with auditors of subsidiaries in other countries” which was included in paragraph 17 of the extant ISA 250. We believe that this is a reasonable and appropriate audit procedure and would recommend that it be retained in the redrafted ISA.