



**BASEL COMMITTEE ON BANKING SUPERVISION**

**BANK FOR INTERNATIONAL SETTLEMENTS**

Chairman

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

Mr Jim Sylph  
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International Auditing and Assurance  
Standards Board  
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**IAASB exposure draft ISA 500 (redrafted), Considering the Relevance and Reliability of Audit Evidence**

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 revised proposals captioned above.

We appreciate the efforts of the International Auditing and Assurance Standards Board (IAASB) in revising and redrafting the auditing standards to enhance auditor performance in an audit of financial statements and improve the clarity of the language within the standards to more clearly describe the responsibilities of the professional accountant. Please find our detailed comments in the attached appendix. These comments have been prepared by the Committee's Accounting Task Force, which I chair. 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 me (+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,

Sylvie Mathérat



## **Appendix**

### **Basel Committee comments on IAASB exposure draft ISA 500 (redrafted), considering the relevance and reliability of audit evidence**

#### **1. Introduction**

The Basel Committee on Banking Supervision<sup>1</sup> (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 an auditor considering the relevance and reliability of audit evidence. The remainder of this appendix highlights certain issues, questions and suggestions for the Board's consideration. Furthermore, the Committee appreciated the publication of the supplemental mapping information, which provided explanations for decisions regarding requirements and application materials and changes to the proposed text.

#### **2. Responses to the IAASB's questions**

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

We believe the objective of proposed ISA 500 should include references to both the sufficiency and appropriateness aspects of audit evidence as explained in ISA 200. As proposed, ISA 500 does not place much emphasis on the sufficiency aspect of audit evidence. We recognise that the requirement to obtain sufficient appropriate audit evidence has been moved from extant ISA 500 to proposed ISA 200, however, we recommend moving the sufficiency aspect back into proposed ISA 500 with an objective similar to paragraph 2 of extant ISA 500 ("The auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion").

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<sup>1</sup> 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.

(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?**

We believe that some of the paragraphs in the Application Material should be elevated to Requirements to better achieve the objective of the ISA. Also, several of the paragraphs under the Introduction section could be upgraded to Requirements as they already have references to the Application Material.

The following paragraphs from the Introduction and Application Material sections of proposed ISA 500 have been modified in order to convert them to Requirements. These new requirements could refer to relevant Application Material that might include any information from each of these paragraphs in the proposed ISA that was excluded from the new requirements.

“3. In arriving at the conclusions on which the audit opinion is based, the auditor shall consider, among other things, information obtained from previous audits, from the firm's quality control procedures, and the entity's accounting records along with information from other sources inside and outside the entity.”

“4. When obtaining and evaluating audit evidence to form the audit opinion, the auditor shall consider procedures such as inspection, observation, confirmation, recalculation, reperformance and analytical procedures and inquiry.”

“A25. The auditor shall design tests of controls to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.”

Paragraphs 5 and 7 of the Introduction section make reference to the sufficiency of audit evidence. However, as stated in our comments related to the objective of this ISA, we believe that this aspect of audit evidence should be better addressed in the Requirements and Application Material of proposed ISA 500. We further believe that separating appropriateness and sufficiency of audit evidence between proposed ISA 500 and proposed ISA 200 does little to improve the clarity of this standard.

Paragraph 12(a) discusses what the auditor should do when information used by the auditor for purposes of the audit was produced by the entity. This requirement could be enhanced by providing examples or additional guidance on obtaining evidence.

Paragraph 13 incorporates audit sampling as a means of selecting items for testing. This requirement was moved into proposed ISA 500 from extant ISA 530. We suggest moving this paragraph back to ISA 530 since that ISA covers audit sampling.

We find extant paragraph 13, on the consideration of the cost and usefulness of the audit evidence, relevant for this ISA and even though it is covered in the Application Material of ISA 200, we recommend adding it as a requirement in proposed ISA 500. One way to modify the text in extant paragraph 13 to make it a requirement would be as follows (changes in bold italics):

“13. The auditor considers the relationship between the cost of obtaining audit evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved ***shall not*** in itself ***be*** a valid basis for omitting an audit procedure for which there is no alternative.”

In the Application Material of proposed ISA 500, there is detailed discussion of the types of audit procedures that an auditor can use for obtaining audit evidence. While we believe these are appropriate, we recommend adding additional application material on electronic evidence. Furthermore, it may be beneficial to consider adding revaluation procedures associated with evaluating model-based financial information.