



BASEL COMMITTEE ON BANKING SUPERVISION

BANK FOR INTERNATIONAL SETTLEMENTS

Chairperson

**VIA ELECTRONIC MAIL:
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Mr Jim Sylph
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IAASB exposure drafts ISA 220, Quality Control for an Audit of Financial Statements and ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements

Dear Mr Sylph

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

We appreciate the efforts of the International Auditing and Assurance Standards Board (IAASB) in redrafting the auditing and quality control 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 related to application of the clarity drafting conventions 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

IAASB exposure drafts ISA 220, Quality Control for an Audit of Financial Statements and ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements

1. Introduction

The Basel Committee on Banking Supervision¹ (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) and International Standard on Quality Control (ISQC) pertaining to quality control for an audit of financial statements and quality control for firms that perform audits and reviews of financial statements and other assurance and related services engagements, respectively. 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.

One general comment for the Board's consideration is that the Committee believes the clarity of both standards would be enhanced if the link between the requirements for the engagement partner and a network firm participating in an engagement were enhanced. The remainder of this appendix highlights certain issues and suggestions for the Board's consideration.

2. ISA 220, Quality Control for an Audit of Financial Statements

The Explanatory Memorandum states that the notion 'an auditor's external expert' will be defined in ISA 620, "Using the Work of an Auditor's Expert". However, we noted that this notion is already used in paragraph 13 of ISA 220 (Redrafted). Therefore, we believe that it would be appropriate to include the definition of the notion in ISA 220.

We noted that the notion 'suitably qualified external person' is defined in paragraph 6(p). However, we were not able to find where this notion is used in ISA 220. However, the notion is defined and used in ISQC 1. We suggest dropping the definition from ISA 220.

The Board may find it useful to include in the Introduction to the Standard a sentence that highlights that any system of quality control has inherent limitations that can reduce its

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.

effectiveness. For example, the Board may want to consider text included in paragraph 5 from Section 20 of the Quality Control Standards of the American Institute of Certified Public Accountants.

Finally, we suggest adding the definition of the notion “reasonable assurance” to the list of definitions in paragraph 6 as this notion is used throughout the ISA (eg paragraphs 2, 5, 6(h) and 25).

3. ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements

This proposed Standard has many detailed requirements, and we believe some of these details should be part of the Application and Other Explanatory Material. More specifically, we recommend that the bullet points of paragraphs 26 and 27 be moved from the Requirements section to the Application Material. We believe moving these details would increase clarity and help readers to focus on the key requirements.

Paragraph A57 recommends a retention period of five years for engagement documentation. We believe that the same paragraph should mention that local legal requirements may foresee other, in particular, longer retention periods.

We noted that often the phrase “the firm considers” in the extant ISQC1 has become ‘the firm may consider’ in the clarified Standard. We believe that “may consider” indicates that all the proposed firm actions are optional. This would not seem to be the original meaning of the paragraphs in extant ISQC 1 and indicates a weakening of the Standard. In a Standard that is dealing with quality control in the audit firm, this is not desirable. We suggest that “may consider” be replaced with wording such as “matters/examples to consider include’. Examples where this weakening has occurred are paragraphs 26, 37, 40, 47, 73f and 77 of extant ISQC 1, which became respectively paragraphs A9, A20, A23, A28, A53 and A61 in the clarified ISQC 1.