BASEL COMMITTEE ON BANKING SUPERVISION

BANK FOR INTERNATIONAL SETTLEMENTS

Chairman

VIA ELECTRONIC MAIL:
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IAASB exposure draft ISA 210, Agreeing the terms of audit engagements and related conforming amendments to other ISAs

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 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. However, we have concerns about the ISA's section dealing with financial reporting standards supplemented by law or regulation.

We have provided more detailed comments in the attached appendix. These comments have been prepared by the Committee's Accounting Task Force, chaired by Ms Sylvie Mathérat, Director at the Bank of France, and have been approved by the Committee. The Committee trusts that you will find its comments useful and constructive.

Yours sincerely,

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Appendix

Basel Committee comments on IAASB exposure draft ISA 210 (redrafted), Agreeing the terms of audit engagements and related conforming amendments

1. Introduction

The Basel Committee on Banking Supervision[1] (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 agreeing the terms of audit engagements. 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. The remainder of this appendix highlights certain issues and suggestions for the Board's consideration.

2. Responses to the IAASB's questions on application of the clarity drafting conventions

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

We believe that the objectives are appropriate.

(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?

Paragraph 18 – *financial reporting standards supplemented by law or regulation – conflicts* requires the auditor to assess whether there are any conflicts between the financial reporting standards and any additional requirements that are imposed by law or regulation. We understand that the text in this section was moved from extant ISA 200, *Objective and*

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.

general principles governing an audit of financial statements,[2] per the close off document of ISA 800 (revised); however the application and explanatory material in paragraph A31 is not what was stated previously in these two documents. The Committee believes that the wording in paragraph A31 is not clear and could be misinterpreted. As written and understood by us, paragraph A31 states that examples of conflicts may include legislative or regulatory requirements that prescribe additional disclosure or narrow the range of acceptable choices that can be made within the financial reporting standards. We believe this wording was not intended and is not in line with paragraph 42 of extant ISA 200, which states that these are examples of legislative or regulatory requirements that do <u>not</u> conflict with the financial reporting framework. In accordance with the International Accounting Standards Board's *Statement of best practice: working relationships between the IASB and other accounting standard-setters* (February 2006), we understand that adding disclosure requirements or removing optional treatments does not create non-compliance with IFRSs.[3] Accordingly, the Committee recommends that the second sentence be removed from paragraph A31 in ISA 210 or that the paragraph be clarified to indicate that these are examples that do <u>not</u> conflict with the financial reporting standards, in line with the current wording of paragraph 42 of ISA 200.

When additional disclosures are prescribed under regulatory or legislative requirements, they often address shortcomings of the current standards and provide users with additional information. Similarly, comparability of financial information between regulated entities can be greatly enhanced in cases where legislative or regulatory requirements narrow the range of accounting policy choices that exist within the financial reporting standards.

3. Other comments

We suggest adding paragraphs A22 and A23 as application material references to paragraph 9 of proposed ISA 210 along with the currently referenced paragraph A21. Paragraph 9 indicates that the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement. Paragraphs A22 and A23 both describe the suggested form and content of audit engagement letters whereas paragraph A21 addresses the narrower issue of whether to send a separate audit engagement letter to a component of a parent entity when the auditor of the parent entity is also the auditor of the component.

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2 On 1 May 2007 the Board issued ED ISA 200 (revised and redrafted), which proposes to move the guidance on determining the acceptability of the financial reporting framework to ISA 210.

3 Reference Paragraph 5.7 Footnote 9 "Adding disclosure requirements or removing optional treatments does not create non-compliance with IFRSs. Indeed, the IASB aims to remove optional treatments from IFRSs. Nevertheless, removal of an option may increase preparation costs for multinational companies if the option removed is the global accounting policy, because the information from the subsidiary using one option needs to be changed to the option used by the group globally."