

## ISA 200 responses in detail by paragraph

#	Org	Org Number	Org Type	Other Paragraphs	Comments
					<i>General</i>
	IDW	31	MB	Structure	<p>Structure</p> <p>Our review of ISA 200 suggests that the structure could be improved by changing the order of some sections and relocating one major item to ISA 210.</p> <p>In particular, we believe that the <b>description of management's responsibility for the financial statements ought to be relocated directly prior to the general principles of an audit</b> because: 1. this restructuring achieves a juxtaposition between the objectives of an audit and the responsibility of management; 2. the definition of "financial statements", which constitute the subject matter information under audit, is placed closer to both the objective of an audit of financial statements and the reference to the Assurance Framework in the third paragraph; 3. the current positioning between "audit risk and materiality" and "expressing an opinion on the financial statements" does not appear logical; and 4. the treatment of professional skepticism, reasonable assurance, and audit risk and materiality does not bear directly upon the responsibilities of management.</p> <p>Furthermore, the <b>determination of the acceptability of the financial reporting framework is generally performed prior to the auditor's acceptance of the engagement</b>, and hence before the actual "conduct" of the audit. The terms of engagement generally encompass the criteria (the financial reporting framework) with which the subject matter information (the financial statements) will have been prepared and therefore will be audited. While there may be cases where an auditor may become aware of information during the conduct of the audit that may suggest that the financial reporting may not be acceptable, we believe that such circumstances are exceedingly rare.</p> <p>Consequently, we suggest relocating <b>the entire section dealing with the applicable financial reporting framework to ISA 210</b>. In our view, the best place for this section would be prior to the section entitled "Agreement on the Applicable Financial Reporting Framework" and to then amend paragraphs 11, 14 and 16 in ISA 210 accordingly. Of course, it may be useful if paragraph 35 of ISA 200 (which we believe ought to be moved with the rest of the section "Responsibility for the Financial Statements" subsequent to the section "Objective of an Audit" within ISA 200) were to contain a reference to ISA 210's treatment of the determination of the acceptability of the financial reporting framework.</p>
	IDW	31	MB	Structure	<p>In our general comments on ISA 200, we suggest moving the section in ISA 200 on Applicable Financial Reporting Framework into ISA 210 and inserting it between paragraphs 9 and 10. Our reading of paragraphs 14 to 18 indicates that such an in-sertion may lead to the need to merge the section from ISA 200 on Applicable Financial Reporting Framework with the section in ISA 210 Agreement on the Applicable Financial Reporting Framework by eliminating some of the repetition in</p>

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					<p>paragraphs 14 to 15 and amending these paragraphs to reflect our general comments on ISA 200 with respect to jurisdictions without authorized or recognized national standards setting organizations.</p> <p>Overall, our reading of ISA 210 indicates that it was not written in a legal framework-neutral manner. For example, once a statutory audit engagement is accepted, a statutory auditor in Germany may not withdraw from or change the engagement, which would be at variance with paragraphs 12 to 13 in the old ISA 210. On this basis, we suggest that the IAASB consider establishing a project to update ISA 210 so that it does not conflict other than common law legal frameworks.</p>
	FSR	1	SS		<p>Our above comments on the terms “reasonable assurance” and “taken as a whole”, applied in ED ISA 700 should be taken into consideration in connection with the wording of paragraph 1718, and the section “Audit Risk and Materiality”.</p> <p>Apart from this, we agree to the revised and new guidance included in the standard.</p>
	KIBR	2	MB		<p>We do not submit any detailed comments thereto, however, with regard to ISA 200 we reiterate our proposal to state clearly, that – as a rule – audit involves evaluation of books of accounts being the base for the figures – both measured and estimated – which are included in the financial statements and/or in other financial information audited by the auditor.</p>
	ICANZ	3	MB		<p>Audit</p> <p>4.8In addition to clarity regarding the terminology used, the PPB considers that specified terms should be used consistently throughout a document.</p> <p>4.9ISA 200 includes the words "audit of financial statements" in its title but uses the word "audit" throughout the document.</p> <p>4.10The IAASB Glossary of Terms does not define "audit". The `definition' of "audit" explains the objective of an audit of financial statements and later states that "A similar objective applies to the audit of financial or other information (emphasis added) prepared in accordance with appropriate criteria."</p> <p>4.11In some jurisdictions, the word "audit" is wider than an audit of financial statements, and this is recognised by the IAASB in its `definition' of "audit".</p> <p>4.12The PPB recommends that the terminology used in a standard be used consistently throughout the pronouncement. For example, "audit of financial statements" should be used throughout ISA 200 and not abbreviated to "audit", particularly as the content of ISA 200 relates to audits of financial statements.</p> <p>4.13 Inconsistent use of terminology may also be inferred as changing the application of the relevant paragraphs.</p> <p>5.22 The PPB is concerned regarding the level of detail being included in ISA 200 in relation to "Applicable Financial Reporting Framework" and "Audit Risk and Materiality".</p>
	APB	4	SS		<p>Subject: ISA 200 : John, Ian Plaistowe and I have flagged before at IAASB meetings the problem of the linkage between ISAs and the IFAC Code of Ethics.</p>

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					<p>As you know there is a problem for countries, such as the UK, where the standard setter wishes to adopt ISAs but have independently established ethical standards that differ from the IFAC Code. The problem is amplified by the length, complexity and style of the Code it is very difficult to know what 'compliance' with it means. This situation seems to be well catered for in the recent exposure drafts of the SMOs.SMO4 states:</p> <p>'Member bodies should use their best endeavours to incorporate the fundamental principles set out in the IFAC Code in their national code of ethics, or where responsibility for the development of national codes of ethics lies with third parties to persuade those responsible for developing those national codes to incorporate the IFAC Code principles'</p> <p>The words 'best endeavours' and 'persuade' I think reflects reality. Paragraph 4 of ISA 200 'Objective and General Principles Governing an Audit', however seems at first sight to be much more demanding by stating:</p> <p>'The auditor should comply with the relevant ethical requirements relating to audit engagements, which ordinarily comprise Parts A and B of the IFAC Code of Ethics for Professional Accountants issued by the International Federation of Accountants together with applicable national requirements where these are more restrictive.'</p> <p>On closer examination the word 'ordinarily' catches my attention. ISA 200 is mute as to what the circumstances might exist that would allow the auditor not to apply Parts A and B of the Code.</p> <p>This issue also crops up in the ISQC but I think it is better treated. Para 14 (bold) requires the firms to comply with 'relevant ethical requirements' and para 15 (grey) explains that this 'ordinarily comprises Parts A and B of the IFAC Code of Ethics for Professional Accountants issued by the International Federation of Accountants together with applicable national requirements where these are more</p>

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					<p>restrictive.' While the ambiguity regarding what 'ordinarily' remains I prefer it, and the link to the IFAC Code, being in grey letters.</p> <p>I would welcome your views on this. If you agree it may be useful to circulate this note, or something like it, to national standard setters to see whether they have a similar difficulty with ISA 200. Whilst ISA 200 remains on exposure there may be an easy way of fixing this.</p> <p>Regards Jon</p>
	CICA	18	MB		<p>General</p> <p>The headings of this proposed ISA include General Principles of an Audit, which includes the subheadings “Ethical requirements” and “Conduct of an audit”. We believe that several other headings in the proposed ISA could also fit under this heading. However, we recognize the need for separate emphasis of such matters as professional skepticism and reasonable assurance. We therefore suggest that the heading General Principles of an Audit be deleted and the related subheadings be promoted to become headings.</p>
	PAAB	19	MB		<p>We are also aware that the IAASB secretariat is considering whether text should be repeated in each standard or merely cross – referenced to the overarching standard. In the present case, a substantial amount of information has been repeated in ISA 210 and 200 and consideration should be given to including matters of principle in the over – arching standard (e.g., ISA 200) and specific requirements in the relevant standard dealing with that specific issue (e.g., ISA 210).</p>
	IDW	31	MB	1	<p>Even though paragraph 2 on the objective of an audit only refers to whether the financial statements are prepared, in all material respects, in accordance with the financial reporting framework, the second sentence in paragraph 1 already refers to “fair presentation”. Not all financial reporting frameworks require “fair presentation”. Consequently, we suggest that either the word “fair” or, if it can be considered redundant given management’s responsibility for the preparation of the financial statements, the phrase “and the fair presentation” be deleted (besides, if the IAASB were to choose to retain the latter, then “true and fair view” would also have to be added). On this basis, the other references to “fair” in the following paragraphs of the Standards should also be deleted (e.g., paragraph 33).</p>
2	ICPA Kenya	22	MB	2	<p><b>Page 22, Paragraph 2:</b> should read “the objective of an independent audit...”, Other audits might have different objectives.</p>
	IDW	31	MB	2	<p>We are somewhat confused by the use of the term “in all material respects” in this sentence. Paragraph 6 in the proposed revision to ISA 700 uses “in all material respects” only in conjunction with “presents fairly”, and presumes that “give a true and fair view” subsumes the thought “in all material respects” without mentioning it explicitly. Consequently, the reference to the financial statements being prepared in accordance with an applicable financial reporting framework subsumes the thought “in all material respects”. Hence, the phrase “in all material respects” is redundant in paragraph 2 of ISA 200. Furthermore, we would like to point out that under some financial reporting frameworks (e.g., statements of receipts and disbursements for</p>

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					lawyers' trust accounts in some jurisdictions, which must be prepared correctly to the penny), there are no materiality considerations. Therefore, retaining the phrase "in all material respects" may not only be redundant – for some financial reporting frameworks, it may be incorrect.
3	ICPA Kenya	22	MB	3	<b>Page 22, paragraph 3:</b> should again read "an independent audit".
5	ICPA Kenya	22	MB	5	<b>Page 23, paragraph 5:</b> in the last sentence "polices" should read "policies".
					5.23The PPB agrees that the topics identified in paragraph 5.18 are important but the title of the standard suggests that it contains general principles governing an audit of financial statements and not detailed explanations on topics. 5.24The PPB recommends that the detailed content on the two topics identified in paragraph 5.18 above be limited to general principles, which will then be consistent with the original content and title of the standard.
	HKSA	30	MB	5	Ethical requirements –Paragraph 5 mentions that "although ISA 220 is directed towards the engagement partner and the engagement team, it recognizes that the engagement team relies on a firm's systems in meeting its responsibilities with respect to quality control procedures applicable to the individual audit engagement". While the engagement team certainly utilizes the firm's "policies, procedures, and systems" in complying with ethical requirements, we think it is an overstatement to say that the engagement team relies on a firm's systems in meeting its responsibilities with respect to quality control procedures applicable to the individual audit engagement. The engagement team and in particular the engagement partner also have responsibility for individual actions.
	IOSCO	39	R	5	Paragraph 5 - while the engagement team certainly utilizes the firm's "policies, procedures, and systems" in complying with ethical requirements, we think it an overstatement to say that "the engagement team <i>relies</i> on a firm's systems in meeting its responsibilities with respect to quality control procedures applicable to the individual audit engagement". (Italics ours) The engagement team and in particular the engagement partner also have specific responsibilities for individual actions. We refer you to our letter of October 21, 2003, on the Exposure Draft for the quality control standard and related ISQC.
	NIVRA	33	MB	6	Para 6: The auditor should conduct his audit in accordance with ISAs (existing requirement bold): add or national auditing standards? This contrasts with para.9. The auditor may also conduct the audit in accordance with both ISAs and national auditing standards applicable in a particular jurisdiction. In our opinion, these two paragraphs should be combined.
7	IOSCO	39	R	7	Paragraph 7 - this paragraph inserts the "basic principles and essential procedures" type of language that we have previously objected to in our IOSCO SC 1 comment letters and meetings with representatives of the Board on the clarity of ISAs. Given that much of the bold lettered material in ISA 700 consists of neither basic principles nor essential procedures (but rather

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					mandated statements for inclusion in the audit report), this type of language seems inconsistent with the approach actually adopted in revising ISA 700. The Board is therefore open to criticism for failing to adopt a coherent approach to standard setting.
8	BASEL	32	R	8	We particularly welcome the final sentence of paragraph 8 stating that “an auditor who does not apply the guidance included in a relevant IAPS needs to be prepared to explain how the basic principles and essential procedures in the Standard addressed by the IAPS have been complied with.” Given the importance of IAPSs 1004 and 1006 to banking supervisors, we strongly support the spirit of this provision but consider that it could be expressed more clearly (e.g., that there is a rebuttable presumption that applying the guidance in the IAPS is necessary to achieve compliance with the Standard).
9	IDW	31	MB	9	Since national requirements for audits are not always set forth in auditing standards (e.g., they may be legislative or regulatory requirements, or requirements arising from court decisions or literature interpreting these other requirements), we suggest changing the term “national auditing standards” to “national auditing requirements” and to define those requirements as including the items listed in the previous sentence. Furthermore, because national auditing requirements may not always be wholly compatible with the ISAs, we suggest adding the phrase “to the extent that these are compatible with the ISAs” to the end of the sentence. These changes ought to be applied in the following paragraphs in the Standard.
10	HKSA	30	MB	10	Scope of an audit – Paragraph 10 defines the term “scope of an audit” to refer to the audit procedures deemed appropriate in the circumstances, in the auditor’s judgment to achieve the objective of the audit. We believe that this could be expanded to refer to ISAs, as follows: “The term “scope of an audit” refers to the audit procedures deemed appropriate in the circumstances, in the auditor’s judgment and in accordance with ISAs, to achieve the objective of the audit.”
	PwC	21	FIRM	10 to 18	10 – 18 These paragraphs consider the effect on the terms of the engagement when identifying the applicability of the financial reporting framework. The guidance in Paragraph 12 states that if the auditor concludes that the financial reporting framework is not acceptable, the engagement should not be accepted. However, the guidance is somewhat contradictory because in Paragraph 13 it is suggested that in such circumstances, the auditor should discuss the deficiencies with management and the need for management to adopt a more suitable framework. We suggest that there should be greater clarity in the guidance regarding when the auditor should not accept the engagement. This may simply be a matter of changing the guidance so it is clear that where the framework is not considered suitable by the auditor and, despite discussions, management’s choice of financial reporting framework remains unchanged, the engagement should not be accepted.
	BASEL	32	R	10	Scope of an Audit Considering that ISA 200 is an umbrella standard and sets out the objective and general principles governing an audit of financial statements, we believe the term “scope of an audit” should be better defined and explained. Paragraph 10 states “The term scope of an audit refers to the audit procedures deemed appropriate in the circumstances, in the auditor’s judgment, to achieve the objective of the audit.” This statement implies that the scope of the audit is entirely dependent on the auditor’s judgment, and it does not relate the “scope” (i.e., nature, timing and extent of the audit procedures)

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					to the risk assessment and the requirements of the various ISAs. Therefore, we recommend an amendment to this section so that the “scope” refers to the nature, timing and extent of the audit procedures based on the auditor’s risk assessment and the requirement for the auditor to obtain sufficient appropriate audit evidence. In addition, a restriction on the auditor’s access to information by the entity, another auditor or an expert may be considered a “limitation in scope”; therefore, the concept of the auditor’s free access to all required information should also be included in ISA 200 and the definition of “scope of an audit”. Similarly, corresponding amendments to ISA 700.31 should be considered.
	IDW	31	MB	12	In line with our comments to paragraph 9, we believe that the first sentence in this paragraph ought to read: “In performing an audit, auditors may be required to comply with other professional, legal or regulatory requirements in addition to ISAs.”
13	CICA	18	MB	13	The wording of the first sentence should be conformed with paragraph 52 of proposed ISA 700.
14	CPA Kenya	22	MB	14	<b>Page 24, paragraph 14:</b> this is a reporting issue only, and should not form part of the scope of an audit.
16	JICPA	12	MB	16	“.....sufficient appropriate audit evidence to be able to <u>draw reasonable conclusions on which to base the auditor’s opinion</u> ”
	IOSCO	39	R	16	Paragraph 16 - this paragraph is useful in emphasizing the importance of professional skepticism. It also needs to mention the need for professional skepticism when considering representations from those charged with governance of the entity, as we have commented in our earlier letter on the Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements
	PwC	21	FIRM	16	The second sentence of Paragraph 16 states that “an attitude of professional scepticism is necessary throughout the audit process for the auditor to reduce the risk of overlooking suspicious circumstances”. As noted earlier, we are concerned about creating new terms that are not reflected in current standards and “suspicious circumstances” is not a term used elsewhere. Accordingly we suggest replacing the phrase with “unusual circumstances”. This term is more common to the ISAs and is found in ISA 700, ISA 200 and ISA 560 of this exposure.
17	GT	20	FIRM	17	Paragraph 17 – We suggest adding the bolded text, as follows “... is designed to provide reasonable assurance that the financial statements taken as a whole are free from material misstatement resulting from fraud or error.”
	IDW	31	MB	17	This paragraph is the first in the ISAs to introduce the notion that auditors obtain reasonable assurance that the financial statements taken as a whole are free of material misstatement. We would like to point out that the concept of “taken as a whole” is not defined anywhere within the ISAs. The concept was taken from US GAAS, which does not appear to define it either, but AU §508.05 does state that “taken as a whole” applies equally to a complete set of financial statements and to an individual financial statement. In our view, the IAASB should not be applying concepts unless it has a clear idea as to what they mean and how they are to be applied. We surmise that what is meant is that the overall presentation of the financial statement or statements – not just the compliance with particular requirements of the financial reporting framework – should be considered in determining whether the statement or statements are misstated. If this is the case, then the concept is connected to both, or either, framework or practitioner overrides (see our general comments to ISA 700) and the use of the terms “fair presentation” and “true and fair view”, which may not be applicable to all financial reporting frameworks. On this

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					basis, we would prefer to have the phrase “taken as a whole” removed because it would not be applicable to all financial reporting frameworks.
18	IOSCO	39	R	18	Paragraph 18 – the phrase “inherent limitations of internal control” seems too negative and should be replaced with a reference to “factors which may undermine the effectiveness of internal control”. We also refer you to our letter of comments on the Exposure Draft on The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements, regarding the need to avoid language that is unreasonably negative about the ability of the auditor to detect fraud
	HKSA	30	MB	18	Paragraph 18 provides guidance that an auditor obtains reasonable but not absolute assurance because there are inherent limitations in an audit that affect the auditor's ability to detect material misstatements. One of the limitations stated is “The inherent limitations of internal control (for example, the possibility of management override or collusion)”. We consider the phrase “inherent limitations of internal control” to be too negative and suggest that it be replaced with “factors which may undermine the effectiveness of internal control”.
	FAR	5	MB	18	The first bullet point in paragraph 18 refers to the use of “testing”. The related expression “on a test basis” is no longer included in the wording of the “Independent Auditor's Report” (paragraph 51 in ISA 700 (Revised)). The nature and meaning of “testing”/“on a test basis” is not described or defined in the “Glossary of Terms” and is therefore unclear. The amendment in this respect in ISA 700 (Revised) is welcomed and the first bullet point in paragraph 18 should be amended accordingly.
	ICAI	8	MB	18	Para 18: This paragraph has been modified from a very strong statement that an auditor cannot obtain absolute assurance. Why has this change been made? We recommend that the strong statement be reinstated.
	LSCA	15	MB	18	10 to 18 The guidance in paragraph 12 states that if the auditor concludes that the financial reporting framework is not acceptable, the engagement should not be accepted. However the guidance is somewhat contradictory because in paragraph 13 it is suggested that in such circumstances, the auditor should discuss the deficiencies with management and the need for management to adopt a more suitable framework. Greater clarity is needed as to when the auditor should not accept the engagement.
	IDW	31	MB	18	The first sentence states that an auditor obtains reasonable but not absolute assurance. As noted in our general comments, we regard this statement to be true, but not fair. Consequently, we suggest changing the sentence to read: “An auditor obtains reasonable assurance when conducting an audit because ...”. We also believe that another important factor that causes inherent limitations on an audit is that there are limitations on the legitimate procedures that auditors may apply in an audit. For example, financial statement auditors are generally not empowered to obtain affidavits or testimony under oath, subpoena witnesses, confiscate documents, or engage in surreptitious surveillance. An additional bullet point that makes this clear with similar wording would be helpful
	BASEL	32	R	18	Reasonable Assurance Paragraph 17 states that an audit in accordance with ISAs is designed to provide the users of the financial statements with “reasonable assurance” that the financial statements taken as a whole are free from material misstatement. In accordance with the definition in the glossary of terms, we have interpreted this to mean “a high, but not



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					absolute, level of assurance". We do not support the proposed amendment to paragraph 18 to state that "an auditor obtains reasonable but not absolute assurance" since it appears to be an attempt to move away from the concept of a high level of assurance. Reasonable assurance and materiality are both fundamental concepts of the audit opinion; therefore, we would prefer that these concepts be clearly articulated in an appropriate manner prior to the issuance of the revised ISA 200. The proposed amendment to paragraph 18 only serves, in our view, to create additional ambiguity as to what level of assurance an audit report is expected to convey. We understand that the Board has recently initiated a joint project with national standard setters on reasonable assurance and that a project on materiality is also in progress. We urge the Board to give both projects priority such that the expectation gap with users can be narrowed and clarity provided on these fundamental concepts. We also recommend that the Board seek the views of the Consultative Advisory Group (CAG), at its next meeting, as to how reasonable assurance in the context of an audit should be defined and give proper weight to the CAG's views when contemplating changes to current guidance. Therefore, until this project on reasonable assurance is completed, we recommend that the Board retain the existing language of paragraph 18, which states that "an auditor cannot obtain absolute assurance", and not adopt the proposed language.
	BDO	34	FIRM		We consider that the first bullet point could be used to manage expectations by adding the clarification that testing is performed only on a sample basis.
19	HKSA	30	MB	19	<p>Paragraph 19 mentions that the work undertaken by the auditor to form an audit opinion is permeated by judgment, in particular regarding:</p> <p>(a) The gathering of audit evidence, for example, in deciding the nature, timing, and extent of audit procedures; and (b) The drawing of conclusions based on the audit evidence gathered, for example, assessing the reasonableness of the estimates made by management in preparing the financial statements.</p> <p>We consider that there should be further elaboration to note the auditor's accountability for his or her use of judgment.</p>
	IOSCO	39	R	19	ISA 200 and Auditor Accountability In paragraph 19 of ISA 200, language needs to be added to note the auditor's accountability for his or her use of judgment. For example, the auditor must be able to demonstrate that the judgments were appropriate in the circumstances. In Paragraph 21, for balanced coverage, something needs to be said in this paragraph about what the audit does, as well as what it does not. A positive statement should be made as to the level of assurance obtained through conducting an audit and conveyed to users in an unqualified audit opinion, as opposed to only negative statements.
	IDW	31	MB	19(b)	In point (b), we suggest inserting the phrase "in accordance with the financial reporting framework" between the words "estimates" and "made" because the reasonableness of estimates can only be determined within the confines of a financial reporting framework. The Audit Report Task Force may wish to consult with the IAASB Task Force responsible for the Audit

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					of Accounting Estimates project on this matter. The same comment applies to paragraph 35
20	CICA	18	MB	20	Paragraph 20 It is not clear how the reference in the first sentence to transactions between related parties is an example of limitations that affect the persuasiveness of audit evidence available to draw conclusions on particular assertions.
21	HKSA	30	MB	21	Paragraph 21 goes on to say that an audit is not a guarantee that the financial statements are free from material misstatement, because absolute assurance is not attainable. Further, an audit opinion does not assure the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity. We consider that for a balanced coverage, additional guidance should be added to be said about what an audit does as well as what it does not do.
34	ICANZ	3	MB	5	4.2 Proposed ISA 200, paragraph 34, states that the term "financial statements" can refer to "...a complete set of financial statements, but it can also refer to a single financial statement.... and related explanatory notes." 4.3 Use of one term ("financial statements") which could mean two completely different things ("a complete set of financial statements" or "a single financial statement") is confusing to users of the standards. 4.4 Furthermore, IAS 1 Presentation of Financial Statements lists the components that comprise a complete set of financial statements, that is, a balance sheet, an income statement, a statement of changes in equity, a cash flow statement and a summary of significant accounting policies and other explanatory notes (emphasis added). 4.5 The statement in ISA 200, paragraph 34, that "financial statements... can refer to a single financial statement" could cause confusion for users of the standard. 4.6 In addition, if the auditor is required to express an opinion regarding the conformity of the financial statements with an applicable financial reporting framework, the auditor is more likely to be expressing an opinion on a complete set of financial statements as identified in an applicable financial reporting framework and not an individual financial statement. 4.7 The PPB recommends that the IAASB either defines the term "complete set of financial statements" to be the same as that contained in IAS 1 or includes a cross reference to the definition in IAS 1 in order that there is consistency of understanding of the term.
	PAAB	19	MB	34	The paragraph indicates that financial data is 'derived' from accounting records. We believe that the data is prepared or obtained from the accounting records and therefore recommend that the reference be changed. We recommend that the word 'derived' is replaced with 'obtained' or 'prepared'. Refer to general comments above. The paragraph includes a reference to a 'single financial statement' which is not referred to in paragraph 2 in ISA 700. Clarity should be provided as to whether a single financial statement should be included in ISA 700 or ISA 800.
	IDW	31	MB	34	We support including a definition of the term "financial statements", because this will ensure that it is clear when the ISAs applicable to financial statements as opposed to standards applicable to other financial information or other subject matter or subject matter information should be used. Nevertheless, we suggest inserting the term "historical" between the words "presentation of" and "financial data" to clarify that only historical rather than prospective financial statements are covered. However, it is incumbent that practitioners around the world interpret this definition of financial statements in the same way. Consequently, we suggest adopting the entire list of examples of financial statements used in AU §623.02, which would go a long way to ensuring consistent interpretation. As far as we are concerned, the addition of these examples should not be considered unduly lengthy, because the guidance dealing with the subject matter information of an audit would thereby run to

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					a maximum of one or two paragraphs, whereas the currently proposed treatment of the criteria applied (applicable financial reporting framework) extends to 11 paragraphs. An additional paragraph of examples is a small price to pay for consistent interpretation of this important issue on a global basis.
35	IDW	31	MB	35	Management's responsibility also extends to determining the acceptability of the identified financial reporting framework. We believe this ought to be mentioned here. In our view, management is responsible not only for maintaining internal control relevant to the preparation of the financial statements, but also for keeping the books and records that supply the information upon which that preparation, and hence a large part of the evidence gathering process in an audit, are based. As far as we know, there is not a single developed country that lacks the legal requirement, in one way or another, that management is responsible for establishing and maintaining adequate books and records. Consequently, we do not believe that the IAASB would be remiss in stating management's common responsibility in this regard. We therefore suggest inserting the following between the terms "internal control" and "relevant" in the first bullet point: "..., including establishing and maintaining adequate books and records,...".
	BASEL	32	R	35	Paragraph 35 appears inconsistent with the wording in ISA 700, paragraph 25. It is missing a reference to management's responsibility "for the preparation and fair presentation of the financial statements". We recommend that the last bullet point in paragraph 35 be revised to read "Making accounting estimates, including fair value estimates where relevant, that are reasonable in the circumstances." Adding a reference to fair value would emphasize the importance of management's responsibility in this area. See also our comment on ISA 700.25(c).
36	PAAB	19	MB	36	It might be necessary to provide for those jurisdictions where the applicable financial reporting framework may also be required in terms of local legislation and not only identified by management.
36	CPA Kenya	22	MB	36	<b>paragraph 36:</b> there are several references to the applicable financial reporting framework being identified by management. In most jurisdictions the applicable framework is normally determined by regulation, and management has no choice.
36	PwC	21	FIRM	36	Guidance in Paragraphs 36 to 46 in ISA 200 attempt to define what is an applicable financial reporting framework and ISA 210 offers guidance as to what an auditor should do when accepting an engagement if the auditor questions the acceptability of the financial reporting framework identified by management. However, although it is inferred in the guidance as to what a "financial reporting framework" is, we question whether the term is sufficiently well defined. We believe that the guidance in Paragraphs 36 to 46 of ISA 200 and indeed Paragraphs 10 to 18 in ISA 210 would be better supported by a definition of the financial reporting framework. We suggest that the following definition of a "financial reporting framework" could be included following Paragraph 35 of ISA 200:  <u>"A financial reporting framework comprises the conventions, principles, accounting standards, and interpretative guidance that define the accepted accounting practice in a particular jurisdiction at a particular time. It may include, but is not limited to,</u>

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					<p><u>a conceptual framework of interrelated objectives and fundamentals that underlie the development of accounting standards and may also include a description of the sources of accounting principles and guidance if the framework is considered to be comprised from a number of different sources. In the case of the International Financial Reporting Standards, for example, it would include the Framework for the Preparation and Presentation of Financial Statements as well as the International Financial Reporting Standards and Interpretations of those Standards.</u></p> <p>We understand that Paragraphs 38 to 46 identify the matters an auditor might consider when determining whether the applicable financial reporting framework identified by management is acceptable, however, the title of this section “Applicable Financial Reporting Framework” might be misunderstood to imply the Paragraphs 38 to define what is applicable, yet this is dealt with in Paragraph 36. We therefore suggest that a subtitle of “Determining the acceptability of the applicable financial reporting framework” preceding Paragraph 37, would avoid any misunderstanding.</p>
36	KPMG	24	FIRM	36 To 46	<p>One significant concern we have relates to the fact that the exposure draft does not explicitly address reporting on bases of accounting that are specified in legislation but that are not necessarily developed by recognized standards setters. Our interpretation of paragraphs 12 to 18 of proposed ISA 210 is that in these circumstances auditors would be precluded from accepting an engagement to audit the financial statements when a basis of accounting specified in legislation does not meet the characteristics of suitable criteria in paragraph 44 of proposed ISA 200. We are concerned that this approach may put auditors in a difficult position in terms of meeting their statutory obligations in some jurisdictions. However, we also recognize that it would not be appropriate for auditors to provide an unmodified opinion on financial statements that are prepared by reference to bases of accounting specified in legislation but that are clearly deficient when compared to the criteria set out in paragraph 44 or to the requirements of frameworks established by authorized or recognized international or national standards setting organizations, such as IFRS.</p> <p>We therefore recommend that IAASB revise paragraphs 36 to 46 of ISA 200 and paragraphs 12 to 18 of ISA 210 to recognize that bases of accounting specified in legislation are acceptable for the purposes of meeting an auditor's statutory obligations. However, the revised standard should also encourage auditors to consider the need to include an emphasis of matter paragraph to the report when a basis of accounting specified in legislation is deficient in relation to the criteria in paragraph 44 of ISA 200 or to the requirements of frameworks established by authorized or recognized international or national standards setting organizations.</p>
36	HKSA	30	MB	36	<p>Paragraph 36 provides guidance that an applicable financial reporting framework is a framework identified by management that is <u>acceptable</u> in view of the nature of the entity (for example, whether it is a business enterprise or a notforprofit organization) and the objective of the financial statements.</p> <p>We do not consider that the test of an applicable financial reporting framework should be based on whether it is “acceptable”. This is a very low threshold which is only above unacceptable. We believe that the test should be an “<u>appropriate</u>” financial reporting framework. This would still encompass standards set by a national standard setter, tax based accounting or rules set by a regulator, as all would be appropriate in the circumstances.</p>

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	IOSCO	39	R	36	Paragraph 36 - this definition of an “applicable financial reporting framework” in this paragraph should begin by mentioning legal and regulatory requirements that are applicable in many jurisdictions, and then proceed to guidance on what to do when no such framework exists (or a choice of frameworks is allowed by the jurisdiction). Guidance should also be provided for when there are doubts about the suitability of a framework because the framework is not of a quality that is acceptable for cross border usage.
37	IOSCO	39	R	37	Paragraph 37 - Suggest that this statement be revised to read “The auditor should determine whether the financial reporting framework identified by management is acceptable in the case where the legal framework in the jurisdiction provides for the possibility to choose between different financial reporting frameworks, as well as when the legal framework in a jurisdiction does not specify any financial reporting framework. In the case where a jurisdiction has an established framework developed and issued by a national standards setter, the auditor would ordinarily presume such a framework to be suitable, unless it appears that application of the framework would produce results that are misleading to investors
	ICAI	8	MB	10,12 of 210	Para 37: The contents of this paragraph are linked with content of paragraphs 10 and 12 of the revised ISA 210. This linkage (references) should be explicitly incorporated into all three paragraphs, as direct references will help the readers given the fragmented nature of the standards.
39	CPA Kenya	22	MB	39	paragraph 39: Very few financial statements are designed to meet the common needs of a wide range of users. Most financial statements are prepared for the use of the shareholders only.
	CICA	18	MB		The last sentence should be written in the singular, as follows:  Financial statements prepared in accordance with a financial reporting framework that is designed to meet the common information needs...
40	CICA	18	MB		Paragraph 40 This sentence would be clearer if it was written as follows: Management ordinarily prepares a set of general purpose financial statements. It may also prepare additional sets of financial statements to meet the specific needs of different users.
41	GT	20	FIRM	41	Paragraph 41 – We recommend clarifying (in the third bullet) that a government regulatory agency may also issue generally accepted (government) accounting principles, in addition to the accounting standards issued by the recognized standards setter in the particular jurisdiction.
	IDW	31	MB	41	The description of who would be organizations that issue acceptable financial reporting frameworks for general purpose financial statements appears to rely to heavily on due process (“established process involving deliberation and exposure of proposals for comment to a wide range of stakeholders”). However, there are a good number of jurisdictions in which governments issue decrees, laws or regulations with which persons must comply in their jurisdictions. Consequently, we suggest separately referring to frameworks acceptable for general purpose financial statements prepared by certain entities where those frameworks are established by government authorities by means of law or regulation. Furthermore, because particular frameworks may only be applicable to those circumstances (e.g., particular entities) as specified in law or regulation, we would add the following phrase at the end of the sentence: “...in the circumstances specified”.

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	BASEL	32	R	41, 44	Applicable Financial Reporting Framework It should be made clear that national financial reporting frameworks that have been approved in a democratic process by a legislature (Parliament or Government), which is the case in some countries, qualify as an acceptable financial reporting framework under ISA 200. In this regard, the first sentence of paragraph 41 states “Financial reporting frameworks...are presumed to be acceptable for general purpose financial statements ... provided the standard setting organisations follow an established process involving deliberation and exposure of proposals for comment to a wide range of stakeholders.” We recommend that the italicised part of the sentence be deleted to avoid the possibility of some recognised national frameworks being deemed to be unacceptable. Similarly, we also recommend that the description of characteristics of suitable criteria offered as guidance to the auditor when considering whether the financial reporting framework is acceptable (paragraph 44) be reconsidered. We are concerned that the frameworks established by some leading national standard-setting bodies or by certain national laws may not fully meet all the stated criteria.
	IOSCO	39	R	41	Paragraph 41 - the qualifying phrase “provided the standards setting organizations follow an established process involving deliberation and exposure of proposals for comment to a wide range of stakeholders” seems inappropriate in that there may be cases where duly-authorized regulators and standards-setters that do not expose all decisions for comment. We would suggest that the phrase be revised to state something similar to “provided the standards issued are duly authorized in the jurisdiction and are accepted by securities regulators having responsibility for oversight and investor protection.”
42	CICA	18	MB		<p>Paragraph 42</p> <p>Please refer to the discussion on paragraph 39 of proposed ISA 700. We do not believe that an applicable financial reporting framework can encompass both the identified financial reporting framework established by international or national standards setting organizations (such as IFRSs) and additional legislative and regulatory requirements. In other words, IFRSs plus more detailed disclosures required under legislation is not, by itself, an acceptable financial reporting framework. In our view, the financial reporting framework continues to be IFRSs because the detailed disclosures do not conflict with the principles of the IFRSs. By way of contrast, if legislation conflicts with IFRSs, for example if it indicates that entities should not account for specific transactions according to the related IFRS, we do not believe that this is an acceptable financial reporting framework. We believe that the auditor's report should distinguish between these two situations.</p> <p>We believe that our views expressed in the previous paragraph are also consistent with paragraph 44 of the proposed ISA which specifically refers only to paragraph 41 as a source of financial reporting frameworks. We agree that it would not be appropriate for an entity to choose a financial reporting framework under paragraph 42 in the circumstances referred to in paragraph 44.</p> <p>As stated above with respect to paragraph 39 of proposed ISA 700, if the IAASB intends to address the relationship between legal and regulatory requirements and financial reporting frameworks established by international or national standards setting organizations then it needs to more fully explore the different circumstances and the audit reporting implications. We believe that the guidance in the proposed ISA 200 is incomplete and lacks clarity. We also believe that paragraph 42 conflicts with paragraph 45, which indicates that a conglomeration of accounting conventions devised to suit individual preferences is not a suitable financial reporting framework.</p>

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	IDW	31	MB	42	In most jurisdictions, the financial reporting framework is broader than just the authoritative pronouncements issued by government, regulators or international or national standards setting organizations (e.g., the “House of GAAP”). We therefore suggest that the first sentence recognize this by referring to requirements or guidance arising from court decisions, from pronouncements issued by professional or other bodies, from commonly accepted interpretations of laws, regulations and standards described in professional or technical literature, or in some jurisdictions, from industry practices widely recognized and prevalent or their equivalent.
44	FAR	5	MB	44	Paragraph 44: The characteristics of suitable criteria in paragraph 44 are not word by word the same as in paragraph 36 of the “International Framework for Assurance Engagements”. However, the wording in paragraph 44 of the amended ISA 200 seems to be the relevant one for characterizing criteria, as it does not include the confusing word “conclusion”. Criteria would relate to the responsible party’s application of them to the subject matter resulting in an outcome while conclusions would relate to the practitioner’s/auditor’s assurance engagement process on the outcome.
	CICA	18	MB	44	Paragraph 44 Items (e) and (f) should be renumbered as (d) and (e).
	PAAB	19	MB	44	We understand that the intention is to widen the financial reporting frameworks which the auditor may regard as acceptable. We also believe that the criteria will assist the auditor in arriving at a decision as to the acceptability of a reporting framework but that the paragraph could be interpreted too widely, thus allowing preparers to adopt reporting frameworks which might not result in fair presentation but has become ‘acceptable’ due to its application in practice. We recommend that the acceptability of a financial reporting framework be defined in narrower terms.
	PwC	21	FIRM	44	The guidance in Paragraph 44 suggests that there may be a need for the entity to identify a financial reporting framework in the situation where it is registered or operating in a jurisdiction that does not have an authorised or recognised national standards setting organisation. Whilst we support the guidance in Paragraphs 44(a) to 44(f) in offering guidance as to whether such a financial reporting framework is acceptable, we do not believe that the second sentence in Paragraph 44, “The entity’s choice is governed by local practice, industry practice, user needs, or other factors”, is appropriate as it gives management the opportunity to adopt a framework that is suitable for its circumstances but may not properly present the financial position, financial performance or cash flows of the entity. Furthermore, it undermines international attempts to promote consistency in the application of financial reporting frameworks. Accordingly we suggest the sentence is removed entirely. In addition, the fourth sentence of Paragraph 44 uses the term “in fact acceptable” as follows: “whether a financial reporting framework is in fact acceptable”. We do not believe there is any differentiation between “acceptable” and “in fact acceptable” and believe the proposed revised ISA 700 should support common terms throughout and therefore remove “in fact” from this sentence.
	GT	20	FIRM	44	Proposed Amendment to ISA 200 describes (in paragraph 44) a scenario where a jurisdiction may not have an authorized or recognized national standards setting organization, but there may be accounting conventions that are generally recognized as the applicable framework. It further stipulates that the auditor considers the acceptability of such framework and whether it exhibits certain characteristics of suitable criteria, such as relevance, completeness, reliability, neutrality, and understandability. We have significant concerns with respect to the auditor’s responsibilities in such circumstances. We

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					believe a considerable burden is placed on the auditor to evaluate whether such framework is acceptable and exhibits the criteria described and accordingly, the auditor may not be able to reach a conclusion on such matters. Thus, we believe the document should provide additional guidance for the auditor. For example, in determining the acceptability of such framework, the document should indicate that the auditor would consider how such framework compares with other frameworks that are known to be acceptable. The auditor would draw upon his or her experience with other frameworks that have gone through a due process when they were established.
	AGAG	27	MB	44	Generally supported. It is considered that paragraph 44 of ISA 200 should also include the criteria of “comparability” and “timeliness” to determine whether the adopted financial reporting framework is acceptable.
	IDW	31	MB	44, 45, 46	<p><b>Jurisdictions without authorized or recognized national standards setting organizations</b></p> <p>Paragraphs 44 to 46 deal with those jurisdictions without authorized or recognized national standards setting organizations (and presumably, where law, regulations or professional standards neither establish such a framework nor prescribe the use of a financial reporting framework established by an international standards setting organization or established in another jurisdiction). We are rather sure that these circumstances do not exist in developed countries and suspect that this situation exists in only a handful of developing countries. In this context, we are uncomfortable with the IAASB requiring auditors in those jurisdictions without a prescribed or recognized financial reporting framework to determine whether the accounting conventions applied in those jurisdictions represent an acceptable comprehensive financial reporting framework. Consequently, we question whether this procedure is necessary given the existence of two international financial reporting frameworks (IFRS, and IPSAS for government enterprises) and dozens of national financial reporting frameworks that cover all kinds of entities and circumstances. The fact that accounting standards were no less underdeveloped less than a century ago in developed countries is, in our view, not a valid argument for accepting nonauthoritative accounting conventions today: what were suitable criteria almost a century ago may no longer be suitable criteria today.</p> <p>Hence, given the general availability of established financial reporting frameworks – both international and national – we believe that the failure by government or professional bodies within a certain handful of jurisdictions to prescribe, by law or regulation or by means of professional standards, respectively, the financial reporting framework that ought to be used in specified circumstances in that jurisdiction no longer justifies the entities operating in those jurisdictions applying nonauthoritative accounting conventions in preparing and presenting the entities’ financial statements. We believe that in these circumstances, those entities ought to apply a relevant international financial reporting framework or a relevant national financial reporting framework from another jurisdiction until either government or the professional bodies in those jurisdictions prescribe the use of particular financial reporting frameworks.</p>
45	CICA	18	MB	45	<p>ISA 200 Paragraph 45</p> <p>The word “suitable” should be replaced by “acceptable” as that is the term used throughout the proposed ISA.</p>



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47	ACAG	27	MB	47,48	In respect to ISA 200, it is recommended that the following sentences be added under the heading of 'expressing an opinion on the financial statements' after paragraph 47, but before paragraph 48. The auditor refers to ISA 701 "Modifications to the Independent Auditor's Report" when expressing a modified audit opinion, including an emphasis of matter, a qualified opinion, a disclaimer of opinion or an adverse opinion
	BASEL	32	R	47	Paragraph 47 of ISA 200 cross-references ISA 700, but ISA 700 deals primarily with unqualified opinions. Paragraph 48 refers to ISA 800 on special purpose audit engagements. However, there is no reference to ISA 701 on modifications to the independent auditor's report in these paragraphs. We recommend that a cross-reference to ISA 701 be added to paragraph 47
	BDO	34	FIRM	47	In addition to referring to ISA 700, we consider that this section should also refer to the new ISA 701 "Modifications to the Independent Auditor's Report" for guidance on modified reports.
A	KPMG	24	FIRM	appendix	ISA 200 Appendix – We recommend making reference to those charged with governance as a possible addressee of the engagement letter.

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