



**International Federation of Accountants**

545 Fifth Avenue, 14th Floor, New York, NY 10017 USA

Tel +1 (212) 286-9344 Fax +1 (212) 286-9570 www.ifac.org

## Agenda Item

# 9

**Committee:** IAASB

**Meeting Location:** Washington DC

**Meeting Date:** December 10-14, 2007

### **Proposed ISA 520 (Redrafted), “Analytical Procedures”**

#### **Objective of Agenda Item**

1. To approve as an Exposure Draft proposed ISA 520 (Redrafted), “Analytical Procedures.”

#### **Task Force Composition**

2. The Task Force members are:

Ian McPhee (Chair) IAASB Member

Susan Jones IAASB Member

Richard Mifsud IAASB Technical Advisor

3. Redrafting support was provided by Bernard Agulhas and Thinus Peyper of the Standards Department of the Independent Regulatory Board for Auditors (IRBA) of South Africa, the secretariat which supports the Committee for Auditing Standards (CFAS) of the IRBA.

#### **Matters for IAASB Consideration**

##### **MATTERS THAT RELATE TO THE REDRAFTING OF ISA 520**

##### *Proposed Objective and Structure of the Redrafted ISA*

4. The Task Force used paragraph 2 of the extant ISA as the basis for the proposed objective. The objective has therefore been drafted to incorporate the following two components covered in paragraph 2 of extant ISA 520:

To design and perform analytical procedures

- That are effective in obtaining relevant and reliable audit evidence when used as risk assessment procedures or as substantive procedures in response to an assessed risk of material misstatement; and
- That contribute to the auditor’s overall review of the financial statements.

The task force agreed that reference to ‘sufficient’ was not appropriate as analytical procedures would not constitute sufficient audit evidence on their own. The redrafted ISA has been structured to follow the structure of the objective.

**Action Requested**

**The IAASB is asked whether they agree with the task force's decision on how to present the objective and if the structure of the requirements and application material properly support the objectives.**

*Analytical Procedures as Risk Assessment Procedures*

5. The task force debated the retention of analytical procedures as risk assessment procedures, as risk assessment procedures are already covered by ISA 315, Understanding the entity and its environment and Assessing the Risks of Material Misstatement. However, ISA 315 (Redrafted) contains limited requirements and guidance on analytical procedures as risk assessment procedures (only referred to in paragraph 6(b) which is cross referenced to paragraphs A7-A8 in the Application Material) and is not as specific as the extant ISA 520 which requires the auditor to apply analytical procedures as risk assessment procedures to obtain an understanding of the entity and its environment. The task force therefore agreed to retain analytical procedures as risk assessment procedures in the redrafted ISA 520.

**Action Requested**

**The IAASB is asked to consider whether the decision of the task force to retain analytical procedures as risk assessment procedures in proposed ISA 520 is appropriate.**

*Considerations Specific to Smaller Entities*

6. The paragraphs dealing with considerations specific to smaller entities have been incorporated from extant IAPS 1005, The Special Considerations in the Audit of Small Entities. The task force believes, however, that some of these considerations are applicable to all entities, irrespective of its size, and therefore included these considerations as applicable to entities of all sizes (Refer to paragraphs A8, A9 and A20).

**Action Requested**

**The IAASB is asked to consider whether the Task Force's decision to apply considerations previously included in IAPS 1005 as being specific to small entities to entities of all sizes, is appropriate.**

*Documentation Requirements*

7. The task force agreed that there was no need to create a new documentation requirement for the sake of having one as ISA 230, Audit Documentation, sets out the requirements and principles for documentation.

**Action Requested**

**The IAASB is asked to consider whether the task force's decision not to add any specific requirements on documentation on analytical procedures is appropriate as it is adequately covered by ISA 230.**

**Material Presented**

Agenda Item 9-A (Pages 3447-3454)	Proposed ISA 520 (Redrafted) – Clean
Agenda Item 9-B (Pages 3455-3466)	Proposed ISA 520 (Redrafted) – Mark-up from Extant
Agenda Item 9-C (Pages 3467-3470)	Proposed Disposition of the Present Tense and Other Statements in Proposed ISA 520 (Redrafted)
Agenda Item 9-D (Pages 3471-3480)	Mapping Document – Proposed ISA 520 (Redrafted)

**Draft of the ISA to be Discussed at the Meeting**

15. The Task Force proposes that the **clean** version of the draft (**Agenda Item 9-A**) be discussed at the meeting.

**Action Requested**

14. The IAASB is asked to consider the matters highlighted above and to approve the proposed ISA 520 (Redrafted) for issue as an Exposure Draft.

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