

For the attention of Jim Sylph  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, NY, 10017  
USA

4 April 2008

Dear Sir

### **IAASB Exposure Draft – Analytical Procedures**

We appreciate the opportunity to comment on the IAASB's proposed redrafted ISA 520 *Analytical Procedures* and proposed conforming amendments to ISA 315.

Following extensive consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on this Exposure Draft. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

### **Overall comments**

Subject to our comments below, we are satisfied that the Clarity drafting conventions have been consistently applied.

We support the inclusion of all guidance on risk assessment analytical procedures in ISA 315 (Redrafted), with the consequent relocation of material from extant ISA 520. The performance of risk assessment analytical procedures is integral to understanding the entity and its environment and therefore we agree that the material is better placed in ISA 315 (Redrafted).

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

We support the objective relating to final analytical procedures.

However, we do not believe it is appropriate to refer to "effective" in the wording of the objective relating to analytical procedures as substantive procedures. "Effective" suggests that analytical procedures alone can be a sufficient response to an identified risk, but analytical procedures would not normally constitute sufficient audit evidence. We suggest that the objective instead convey that analytical procedures need to be designed and performed to be an appropriate response to the identified risk, thereby obtaining relevant and reliable audit evidence. We believe that this would provide a better link to the proposed ISA 500 (Redrafted).

Thus we suggest that the objectives are revised as follows:

"The objectives of the auditor are:

- (a) When using analytical procedures as substantive procedures in response to assessed risks, to design and perform such analytical procedures so that the results of the procedures provide relevant and reliable evidence ~~they are effective~~ in responding to assessed risks of material misstatement in the financial statements at the assertion level; and
- (b) To design and perform analytical procedures that assist in arriving at the overall conclusion in an audit of financial statements."

**Have the criteria for requirements been applied appropriately and consistently?**

We believe that, subject to the point below, the criteria for requirements have been applied appropriately and consistently.

Paragraphs 8(b) and 8(d) both refer to the auditor's expectation used in substantive analytical procedures – paragraph 8(b) requires the development of an expectation and paragraph 8(d) requires the auditor to evaluate whether the expectation is sufficiently precise. We believe that these paragraphs should be combined, as the auditor should consider the necessary precision in developing the expectation, rather than consider the precision of the expectation as a separate step.

**Definition**

We acknowledge that the proposed definition of analytical procedures is taken from the extant ISA 520 and the IAASB glossary. However, we do not believe that there is sufficient clarity in the term "study", as it is not easy to understand what is involved. We recommend that the definition is amended to refer to "the *analysis* of plausible relationships among both financial and non-financial data *and significant ratios and trends.*"

**Special considerations in the audit of smaller entities**

We support the decision to include material from IAPS 1005 in ISA 520 (Redrafted) and in the conforming amendments to ISA 315 (Redrafted), and to identify only certain paragraphs as specific to the audit of smaller entities.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Roger Marshall (+44 20 7804 4866).

Yours faithfully,

PricewaterhouseCoopers