

March 31, 2008

Mr. James Sylph
Executive Director, Professional Standards
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Re: Exposure Draft: *Proposed Redrafted International Standard on Auditing (ISA) 520 (Redrafted), Analytical Procedures.*

Dear Mr. Sylph:

The American Institute of Certified Public Accountants is pleased to comment on the above referenced exposure draft. We commend the International Auditing and Assurance Standards Board on its proposed redrafting of International Standard on Auditing (ISA) 520. We believe that the objective for the Proposed ISA is appropriate, and that the proposed requirements are appropriate responses to that objective.

Scope of Proposed ISA 520

We agree with the revision in scope of proposed ISA 520.

Other Comments

We offer the following specific comments on the exposure draft.

Paragraph 8(a) - Determining the Suitability of Using Substantive Analytical Procedures

The objective of the auditor when using analytical procedures as substantive procedures is, “to *design and perform* analytical procedures so that they are effective in responding to assessed risks of material misstatement in the financial statements at the assertion level.” The auditor determines the procedures to be performed when responding to risks in accordance with ISA 330, *The Auditor’s Responses to Assessed Risks*. However, paragraph 8(a) requires the auditor to determine the suitability of using substantive analytical procedures. We believe that as drafted, the requirement in paragraph 8(a) is inconsistent with the objective of the ISA. We recommend that sub-paragraph (a) be moved to the application material.

Investigating Results of Analytical Procedures

Paragraph 10 requires the auditor to investigate differences by “inquiring of management and obtaining appropriate audit evidence relevant to management’s responses, and performing other audit procedures as necessary in the circumstances.” We believe that paragraph 10 is intended to apply to both substantive analytical procedures and the auditor’s overall analytical procedures; however, as drafted, the requirement appears to be tailored more towards substantive analytical procedures. We recommend that the requirement be redrafted to more closely align with the requirement in extant ISA 520, paragraph 17, i.e., the auditor shall investigate and obtain adequate explanations and appropriate corroborative audit evidence.

Documentation

We note that there is no documentation requirement in extant ISA 520 or in proposed ISA 520. In complying with ISA 230 (Redrafted), *Audit Documentation*, in relation to analytical procedures, the auditor would need to document:

- (i) The auditor’s expectation, including the assumptions made in developing that expectation; and
- (ii) Explanations and appropriate corroborative audit evidence obtained when analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

In order to encourage consistency in practice and because of the importance of documenting the aforementioned items, we recommend including a statement that these items would need to be documented in order to demonstrate compliance with ISA 230.

Our editorial comments and recommendations are included in the accompanying appendix.

Thank you for the opportunity to comment on this exposure draft. If you have any questions regarding the comments in this letter, please contact Andy Mrakovcic,

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at +1-212-596-6094, amrakovic@aicpa.org, or Sharon Walker at +1-212-596-6026, swalker@aicpa.org.

Respectfully submitted,

/s/ Harold Monk, Jr.
Chair, Auditing Standards Board

Appendix

We offer the following editorial comments for your consideration. Suggested new language is shown in boldface; suggested deleted language is shown by strikethrough. Italicized text is used to add emphasis.

Paragraph 6(a). In order to present paragraph 6(a) consistently with paragraph 6(b), we recommend rewording paragraph 6(a) as follows:

(a) ~~When using analytical procedures as substantive procedures in response to assessed risks,~~ **To design and perform such analytical procedures, when used as substantive procedures in response to assessed risks,** so that they are effective in responding to assessed risks of material misstatement in the financial statements at the assertion level; and

Paragraph 7, first sentence. We recommend deleting “the” before “purposes” in order to remain consistent with how this phrase is written in other ISAs.

Paragraph 8, lead-in sentence. To enhance the readability of paragraph 8 we recommending moving the phrase “either alone or in combination with tests of details,” to the application material.

Paragraph 8(e). We recommend adding a comma after the word “investigation.”

Paragraphs 9 and A15, heading. In order to reduce wordiness, we recommend deleting “in an Audit of Financial Statements” from the headings above paragraphs 9 and A15.

Paragraph A6, second sentence. We recommend adding “on” before “analytical” and a comma after “or.”

Paragraph A9, first sentence. We recommend deleting “by its” before “nature.”

Paragraph A14. There is a reference to “paragraph 9(a)-(d).” We believe the correct reference is “paragraph A9(a)-(d).”