



CANADIAN PUBLIC ACCOUNTABILITY BOARD  
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

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March 31, 2008

Mr. Jim Sylph, CA  
Executive Director, Professional Standards  
International Federation of Accountants  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, NY 10017  
USA

Dear Mr. Sylph:

**Re: Exposure Draft (ED), ISA 501, *Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures***

The Canadian Public Accountability Board (CPAB) is pleased to respond to this ED.

We support the elimination of requirements for *Long Term Investments*; we strongly support the strengthening of the requirement to observe the inventory count (subject to one comment – see below; we have several comments on *Segment Information*; but we have more serious concerns about the material dealing with *Litigation and Claims*.

We also believe there are other areas where it should be a high priority to add further elements to ISA 710, including:

- Stock-based compensation.
- Financial instruments.
- Variable interest entities.

### ***Inventory***

We support the strong requirement to attend the physical inventory and the guidance intended to deter too liberal use of the “impracticability” option.

Paragraph A11 discusses the impracticability of attend the physical count due to threats to the well-being of the auditor. This situation is rare, and would raise much broader issues than mere ability to attend a physical count. “General inconvenience”, on the other hand could be interpreted narrowly or broadly. It would be helpful to be more specific. In particular, the guidance could indicate that cost is not a sufficient ground for not attending a material physical inventory.

### ***Litigation and Claims***

<b>Paragraph Ref.</b>	<b>Comment</b>
10	<p>We believe the auditor should be required to communicate with <u>all</u> the client's legal counsel unless the auditor can see contractual evidence that the legal counsel does not deal with litigious or tax matters. In all other cases, until the auditor receives a response, he or she cannot know that there are no claims and possible claims outstanding. It is not sufficient that the auditor merely communicate directly with external legal counsel based on a risk assessment.</p> <p>A parallel situation is confirming bank accounts. Auditors confirm all known bank accounts, whether or not they appear to have a balance.</p>
9 and A17	<p>There is no logical reason to distinguish between the audit procedures in paragraph 9 and those in paragraph A17. Reviewing legal expense accounts and related source documentation, and consideration of other information obtained during the risk assessment phase, should be incorporated into paragraph 9.</p>

### ***Segment Information***

<b>Paragraph Ref.</b>	<b>Comment</b>
14(b)	<p>Delete "Where appropriate". The lead-in to paragraph 14 already covers "audit procedures appropriate in the circumstances". Furthermore:</p> <ul style="list-style-type: none"><li>• Extant ISA 501 does not contain an equivalent; and</li><li>• We can conceive of no circumstance where testing the application of management's methods would not be appropriate.</li></ul>
A24	<p>"May be required or permitted" implies that there are jurisdictions where disclosure of segment information is prohibited. Is this the case?</p>
A25	<p>The "for example" is superfluous.</p>
General	<p>Paragraph 13 requires written representations concerning litigation and claims. We believe such representations are equally needed for segment information.</p>

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If you wish to discuss any of the above comments please contact David Selley at CPAB (416) 913-8260 extension 4153 or after April 8 2008, Kenneth Vallillee at extension 4175.

Yours very truly,



Keith Boocock  
Chief Executive Officer

cc. Mr. Greg Shields, CA  
Director, Auditing and Assurance Standards  
Canadian Institute of Chartered Accountants