

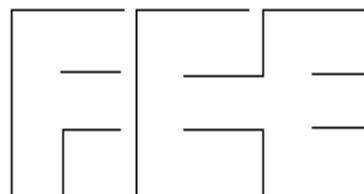
Date
21 November 2007

Le Président

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Mr. J. Sylph
Executive Director Professional Standards
International Auditing and Assurance Standards Board (IAASB)
545 Fifth Avenue, 14th Floor
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Edcomments@ifac.org

Dear Mr. Sylph,

Re: Exposure Draft – Proposed International Standards on Auditing 700 (Redrafted) – The Independent Auditor’s Report on General Purpose Financial Statements

As the representative organisation of the European accountancy profession, FEE is pleased to comment on the Exposure Draft – Proposed International Standard on Auditing (ISA) 700 (Redrafted) on The Independent Auditor’s Report on General Purpose Financial Statements (Proposed ISA 700).

FEE is supportive of this re-draft of ISA 700. Our comments are on the basis of this re-draft. The question whether a complete revision of this standard is considered necessary will not be commented on in this letter but in the context of IAASB’s Strategy Note of September 2007.

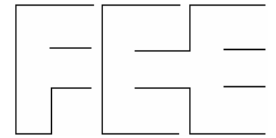
1. Main Comments

1. Comparability of ISA auditor’s reports

The previous revision of ISA 700 sought to enhance the understandability and comparability of the auditor’s report by, among other matters, clearly separating the “ISA part” of the report from any “other reporting responsibilities” arising from legal or regulatory requirements of a particular jurisdiction.

To maintain that distinction, and to enhance consistency with Proposed ISA 700 paragraphs 8 and 10 (and the wording in Proposed ISA 200 paragraph 4 “express an opinion” whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework”), we recommend paragraph 35 be reworded as follows

“When the auditor addresses other reporting responsibilities in the auditor’s report on the financial statements that are in addition to the auditor’s responsibility to express the opinion on whether the financial statements are in accordance with the financial reporting framework, these other reporting responsibilities shall be addressed in a separate section in the auditor’s report following the opinion section. This separate section shall be sub-titled “Report on Other Legal and Regulatory Requirements,” or otherwise as appropriate to the content of the section.”



2. Explanation of management's responsibilities vs. premises of an audit

Although the Board decided amending the requirement in paragraph 22 of Proposed ISA 700 regarding the description of management's responsibility, because it would go beyond the application of the clarity drafting conventions, the Explanatory Memorandum acknowledges the premise, relating to management's responsibilities, on which an audit is conducted are being considered in the revision/redrafting of ISA 580 which "may give rise to conforming amendments" to this ISA.

Accordingly, we suggest the wording of the auditor's report (and of proposed paragraph 22) be aligned with that of [Proposed] ISAs 200, 210 and 580. FEE believes that Proposed ISA 700 should adopt an approach to management's responsibilities in conformity to that of [Proposed] ISAs 200, 210 and 580. *I.e.*, the basic premises upon which an audit is based should be described in the auditor's report, rather than a sentence alluding to management's responsibilities, which may or may not reflect the legal responsibilities in the relevant jurisdiction.

Because the legal responsibilities of management differ between jurisdictions and different legal forms of entity within jurisdictions, any attempt to provide an accurate/comprehensive description would necessarily lead to inconsistencies in auditor's reports. In contrast, an explanation of the premises common to all ISA audits would facilitate consistency.

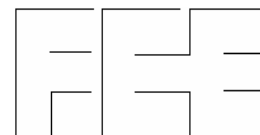
3. Authority of the ISAs versus that attaching to national auditing standards

The authority of the ISAs will be compromised if too much flexibility is allowed in reporting on ISAs and other national auditing standards. As proposed, paragraph 40 allows precedence to national auditing standards (*i.e.*, in those jurisdictions that have not transposed ISAs) over ISAs in respect of layout and wording. FEE believes this should only be the case for requirements established by law or regulation. The ISA lay-out should be considered more important when an audit is performed according to both ISAs and national standards, except for the situation where the national standards are part of local law. Therefore, including the phrase '*except for situations where law or regulation require otherwise*' might be helpful in this context.

4. Potential overlap between Proposed ISAs 700, 705 and 706

Other matters and other reporting responsibilities are dealt with in paragraphs 34 and paragraphs A35 to A39 in Proposed ISA 700 and in paragraphs 4, 9, and paragraphs A6 to A8 of Proposed ISA 706:

- Proposed ISA 700 explains that 'other matters' which are included in the 'main' audit report are those providing further explanation of the auditor's responsibilities (either legal or voluntary). 'Other reporting responsibilities' are in another section of the report, outside the 'main' report. Reporting on books and records, for example, is referred to in the application material as being 'other reporting responsibilities'. But it is difficult to see how this type of issue differs to 'other matters' as described in paragraph 34 ('further explanation of the auditor's responsibilities').
- Proposed ISA 700 cross refers to Proposed ISA 706 regarding 'other matters'. Paragraph A6 to A8 in Proposed ISA 706 have been changed in substance from extant paragraph 17. Paragraph A6 was originally an item in its own right (elaboration on matters regarding auditor's responsibilities) among other examples of 'other matters' such as ISA 720 inconsistency reports. It might well have been construed as covering books and records. It has been taken out of this context and set up as a generic heading and now refers to the remaining examples in the list from which it was drawn.



5. *'True and fair view' or 'present fairly, in all material respects'*

FEE refers to its letter dated 21 October 2005 in respect of the Proposed International Standard on Auditing (ISA) 701 – The Independent Auditor's Report on Other Historical Financial Information and Proposed ISA 800 – The Independent Auditor's Report on Summary Audited Financial Statements.

FEE continues to have the following concerns:

In a number of European jurisdictions, 'true and fair view' or 'present fairly, in all material respects' is considered to be equivalent for reporting on a complete set of financial statements as acknowledged in paragraph 31 of Proposed ISA 700. However, we regret that Proposed ISA 800 in paragraph A23 does not acknowledge that under some financial reporting frameworks, including International Financial Reporting Standards and certain European financial reporting frameworks, it will apparently not be allowed to present a balance sheet, a cash-flow statement or another single item in isolation and claim compliance with that specific financial reporting framework.

IAASB could also address the situation arising in various European jurisdictions, where a 'true and fair view' has historically been associated, in law or practice, with a complete set of financial statements, whereas the use of the words 'present fairly, in all material respects' have more often been associated with single financial statements or elements of financial statements. Therefore, paragraph 31 of Proposed ISA 700 could be moved to ISA 200, so that it applies to both ISA 700 and ISA 800, and the phrase "for complete sets of financial statements" could be added to the end of that paragraph. This would provide a basis for suggesting limitations on the use of "true and fair view" in relation to historical financial information other than complete sets of financial statements without unduly extending this limitation to the use of "present fairly, in all material respects". We suggest the IAASB include further guidance in ISA 700 (e.g. paragraph 27) suggesting that, in the context of many financial reporting frameworks, the use of 'true and fair view' may be limited to complete sets of financial statements and prohibited for other than complete sets of financial statements, whereas 'fairly presents, in all material respects' may not necessarily be so limited, depending on the context of the applicable financial reporting framework.

Reference is also made to our comment letter on Proposed ISA 800.

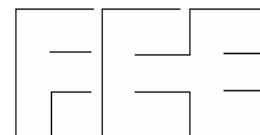
6. *Reference to modified IFRS*

The statutory framework in the European Union requires that financial statements be described as prepared "in accordance with IFRSs as adopted by the European Union." This phrase has been recommended for use in the audit report when referring to the financial statements reported upon. In that context, the phrase "...is likely to be misleading..." at the end of paragraph A9 could lead to a proliferation of modified auditor's reports.

Paragraph 14 of the Exposure Draft "Amendments to IAS 1" explicitly stated companies are not required to quantify the difference between their financial statement prepared in accordance with IFRSs and modified IFRSs respectively. As this is a matter upon which the IASB deliberates and decides, we are concerned that the IAASB is seen to pronounce upon an accounting issue and does so in a manner apparently inconsistent with the approach adopted by the IASB.

In the absence of quantification by the reporting entity, it is probable the auditor will be unable to determine if the differences are so significant that the financial statements prepared in accordance with modified IFRS are misleading.

We urge the Board to revisit the contents of Paragraphs A9 to A11 (including the related content of paragraphs A33 and A34), in collaboration with the IASB, and reconsider the appropriateness of their inclusion "in the proposed redrafted ISA 700."



2. Other Comments

2.1 Comments on objectives

According to FEE, the objective should be aligned with Proposed ISA 200 paragraphs 4 and 5:

4. The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

5. In conducting the audit so as to achieve its objective, the overall objective of the independent auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to report on the financial statements in accordance with the auditor's findings.

FEE proposes that paragraph 5(b) read "Express clearly that opinion." The remainder of the current text constitutes a requirement to explain the report which is adequately dealt with in paragraphs 24 to 29.

2.2 Comments on definitions

Proposed ISA 200 provides definitions of "compliance framework" and "fair presentation framework". FEE believes that it is necessary to include in Proposed ISA 700 a cross-reference to these definitions.

2.3 Comments on requirements

Paragraph 10 (a)

Even were the applicable financial reporting framework is so codified that it precludes a choice of accounting policies, in our opinion management will still have to apply its judgment or interpretation as to whether or not particular circumstances fit within the required accounting policy and, if they do, the application of the recognition, measurement, disclosures etc. tenets of that policy. Therefore, we suggest the second sentence of paragraph 10 (a), which includes the verb 'may', be transferred to the Application and Other Explanatory Material.

Paragraph 13

FEE suggests to reverse the order of paragraph 13 as follows :

*"The auditor shall express an unmodified opinion when the auditor concludes that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework (see paragraphs 31-32), **or, in the case of a compliance framework**, that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework".*

Paragraph 16

As the second sentence of paragraph 16 refers solely to "extremely rare circumstances", its inclusion in the Requirements' section is, in our opinion, not in conformity with the clarity conventions. Therefore, FEE suggests the second sentence of paragraph 16 should be transferred to the application material, as follows:

"In extremely rare circumstances, the auditor may conclude that such financial statements prepared in accordance with a compliance framework are, in the auditor's professional judgment, misleading. In such a case, the auditor may discuss the matter with management and, depending on how it is resolved, determine whether, and how, to deal with it in the auditor's report."

Furthermore, FEE considers the flow of the guidance on Form of Opinion would be enhanced were the first sentence of paragraph 16 be re-positioned after paragraph 12.

Paragraph 40 (b)

FEE is unclear, when the auditor uses the layout specified by the national auditing standards, although issuing an opinion referring to both ISA and national audit standards, what the minimum content would be of each of the elements listed in paragraph 40 (b). For example, it seems that bullet (v) will permit, when describing the auditor responsibility, to omit reference to “misstatement of the financial statements, whether due to fraud or error”.

Accordingly, FEE proposes the paragraphs 10 (a) and 40, as well as their corresponding Application Material, to be more explicit on this matter.

2.4 Comments on Application Material

Paragraph A33 (b)

FEE refers to its main comment 6. Nevertheless, FEE wants to communicate its following comment on A33 (b). Paragraph A33 (b) is part of the Application and Other Explanatory Material, and an auditor, as a consequence, is not required to add an emphasis of matter paragraph in the circumstances described in this paragraph. Furthermore, the sentence uses the word ‘may’ and does refer to “(..) in accordance with Proposed ISA 706 (..)”. FEE requests IAASB whether is it worthwhile keeping this paragraph in the standard, as it is hard to see in what circumstances such an emphasis of matter paragraph would be used.

Paragraph A43 and A44

The current text of paragraph 44 reflects the situation in which the financial statements are (to be) issued publicly (the so-called “final approval), but doesn’t reflect the situation where the financial statements are not (yet) publicly issued but handed over to management. FEE requests IAASB to insert an additional paragraph between paragraph A43 and paragraph A44 in order to deal with this situation.

3. Response to IAASB’s Request for Responses to Questions

3.1. Views on the proposal to limit the scope of proposed ISA 450 (Revised and Redrafted) to the evaluation of the effect of uncorrected misstatements, while proposed ISA 700 (Redrafted) deals with the evaluation whether the financial statements as a whole are free from material misstatement.

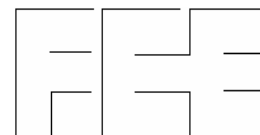
FEE is in agreement with these proposals.

3.2. The proposed guidance in paragraphs A9-A11 and A33-A34 of proposed ISA 700 (Redrafted), which was developed to address the matter of financial reporting frameworks described by reference to IFRSs.

FEE agrees it is appropriate to await the outcome of IASB deliberations before finalizing ISA 700 (users, e.g. in the EU, will be well versed with IFRS as adopted in the EU, but there will be cross-border considerations).

3.3. The proposal to incorporate the guidance in IAPS 1014, appropriately amended, in paragraphs A4-A8 and A31-A32 of proposed ISA 700 (Redrafted) and to withdraw IAPS 1014.

FEE agrees with this proposal.



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

No. We refer to our comments on the objectives above.

3.5. Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and reporting, and the use of professional judgment by auditors?

We refer to our comments made above.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours sincerely,

Jacques Potdevin
President

Ref: AUD/AED/HB-EF/JP