

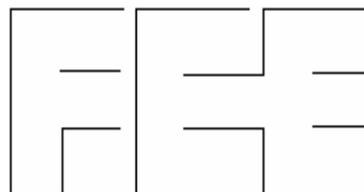
Date  
21 November 2007

Le Président

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Mr. J. Sylph  
Executive Director Professional Standards  
International Auditing and Assurance Standards Board (IAASB)  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York 10017  
USA



[Edcomments@ifac.org](mailto:Edcomments@ifac.org)

Dear Mr. Sylph,

Re: **Exposure Draft – Proposed International Standards on Auditing 706 (Redrafted) – Emphasis of Matters Paragraphs and Other Matter(s) Paragraph in the Independent Auditor’s Report**

As the representative organisation of the European accountancy profession, FEE is pleased to comment on the Exposure Draft – Proposed International Standard on Auditing (ISA) 706 (Redrafted) on Emphasis of Matters Paragraphs and Other Matter(s) Paragraph in the Independent Auditor’s Report (Proposed ISA 706).

## 1. Main Comments

FEE is concerned that the use of the term “fundamental” in Paragraph 7 of Proposed ISA 706 could lead to a misunderstanding regarding the difference between Proposed ISA 705 on modifications to the audit opinion and Proposed 706 dealing with the emphasis of matter paragraphs and the other matter(s) paragraph. Traditionally, the term “fundamental” refers to matters that give rise to a modification of the auditor’s opinion, rather than to the general understanding by the users of the financial statements and the auditor’s report. In our opinion, the term “necessary” would better reflect the message conveyed in ISA Proposed 706.

As indicated below, FEE believes the wording used in paragraph 7 is stronger than that in the extant ISA 701 and is likely to result in fewer emphasis of matters appearing in audit reports in the future. FEE agrees that including an emphasis of matter should remain a matter of auditor judgment as it is very difficult to set definitive criteria that apply in all circumstances.

However, the decision process for inclusion of an emphasis of matter or another matter(s) paragraph remains unclear because the terms ‘appropriate’ and ‘necessary’ are used inconsistently throughout Proposed ISA 706. Accordingly, we recommend the IAASB reconsiders and clarifies this distinction.

## 2. Other Comments

### 2.1 Comments on objectives

FEE refers to its main comment on the inconsistent use of the terms ‘appropriate’ and ‘necessary’ in order to indicate the circumstances where an auditor includes additional paragraphs in the auditor’s report. Furthermore, e.g. paragraph A6 refers to the terminology ‘requires or permits’ which is much stronger than the term ‘appropriate’.

FEE recommends the term ‘communication’ used in the objective of Proposed ISA 706 be replaced by the term ‘information’, as the auditor’s report as a whole constitutes a means of communication.

The objective would be re-worded as follows:

*“The objective of the auditor is to include clear additional information in the auditor’s report when, in the auditor’s judgment, such information is necessary to draw users’ attention to a matter presented or disclosed in the financial statements or to any other matter which may be relevant to their understanding of the financial statements or the audit.”*

### 2.2 Comments on requirements

#### *Paragraph 7*

FEE believes the wording used in paragraph 7 is stronger than that in the extant ISA 701 and is likely to result in fewer emphasis of matter paragraphs appearing in audit reports in the future. FEE agrees that including an emphasis of matter paragraph should remain a matter of auditor judgment as it is very difficult to set definitive criteria that apply in all circumstances.

The difference in the description of the use of an Other Matters paragraph (paragraphs 4, 9, and A6 to A8 in Proposed 706) vs. the inclusion in the auditor’s report of the other reporting responsibilities (paragraphs 34 and A35 to A39 in Proposed ISA 700) is not clear:

- Broadly speaking, ISA 700 explains that ‘other matters’ which are included (albeit with another heading) 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.
- Therefore, FEE requests IAASB to incorporate better guidance on the circumstances where the auditor includes an other matter(s) paragraph in the auditor’s report.

### 2.3 Comments on Application Material

#### *Paragraph A1*

FEE recommends rewording this paragraph in order to clarify that these are requirements in other ISAs and that there could also be other examples, whereas paragraph A1 uses the term ‘may’. FEE requests IAASB to rephrase the introductory paragraph to paragraph A1 as follows:

*“In some other ISAs, the auditor is required to emphasise in the auditor’s report a matter presented or disclosed in the financial statements, for example (..)”*

#### *Paragraph A6*

The wording of paragraph A6 needs to be revised, as it may convey the impression that ISA 700 always requires the auditor to address certain matters required or permitted by law, regulation or generally

accepted practice in a jurisdiction. However, this is not the case, since matters so permitted are not required to be included in the auditor's report. What ISA 700 actually does is establish the placement of such matters in the auditor's report, not their inclusion or omission. (ISA 700 (Redrafted) paragraph 34: "Law or regulation may require the auditor, or the auditor may consider it appropriate, to elaborate on matters that provide further explanation of the auditor's responsibilities in the audit of the financial statements or of the auditor's report thereon. Such matters shall be addressed under the heading "Other Matters," which follows the Opinion section.")

FEE suggests the current text be amended as follows:

*"When law, regulation or generally accepted practice in a jurisdiction require or permit the auditor to elaborate on matters that provide further explanation of the auditor's responsibilities in the audit of the financial statements or of the auditor's report thereon, and the auditor considers it appropriate or necessary to elaborate on such matters [Proposed] ISA 700 (Redrafted), "The Independent Auditor's Report on General Purpose Financial Statements," requires the auditor to address such matters under the Other Matter(s) heading with, where relevant, one or more sub-headings that describe the content of the Other Matter(s) paragraph. "*

*Paragraph A7*

FEE suggests paragraph A7 (c) specifically refer back to Proposed ISA 705. The 'for example' in the third line of paragraph A7 is superfluous.

## Appendix

FEE requests that an illustrative example of an Auditor's Report including an Other Matters paragraph be included in this appendix.

### 3. Response to IAASB's Request for Responses to Questions

#### 2.1. 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.

#### 2.2. 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 above on paragraph 7.

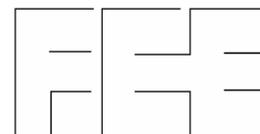
If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours sincerely,



Jacques Potdevin  
President

Ref: AUD/AED/HB-EF/JP



## **Appendix : Translations issues**

FEE considers the sentence in paragraph 4 referring to 'the auditor may consider it appropriate' being unclear. In paragraph A1, the sentence 'may consider it appropriate or necessary' is being used. FEE wonders how the term 'appropriate' should be translated correctly. Therefore, FEE suggests IAASB to clarify what the meaning of 'appropriate' is in both these circumstances. Moreover, FEE prefers the use of one word only in all cases, if the same meaning is intended in these circumstances.