

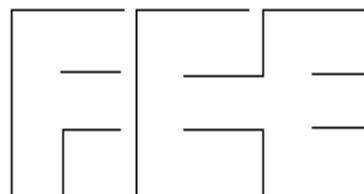
Date
21 November 2007

Le Président

Fédération
des Experts
Comptables
Européens
AISBL

Avenue d'Auderghem 22-28/8
1040 Bruxelles
Tél. 32 (0) 2 285 40 85
Fax: 32 (0) 2 231 11 12
E-mail: secretariat@fee.be

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



Email: Edcomments@ifac.org

Dear Mr. Sylph,

Re: Exposure Draft – Proposed International Standards on Auditing 705 (Redrafted) – Modifications to the opinion 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) 705 (Redrafted) on Modifications to the opinion in the independent auditor’s report (proposed ISA 705).

FEE supports Proposed ISA 705 and considers this standard an improvement on the corresponding part of extant ISA 701. However, FEE is of the opinion that some amendments would further to enhance the quality of this standard and thereby refers to its comments made below.

1. Comments

1.1 Comments on definitions

FEE suggests expanding the definition of ‘pervasive’, by adding an additional paragraph (c), as follows:

“Pervasive – in the context of misstatements or an inability to obtain sufficient appropriate audit evidence, the term pervasive is used to describe the effects or possible effects on the financial statements of a matter, that, in the auditor’s judgement, are:

- (a) Not confined to specific elements, accounts or items of the financial statements; or*
- (b) If so confined, represent or could represent a substantial proportion of the financial statements; or*
- (c) Misstated disclosures that individually or in aggregate are fundamental to users’ understanding of the financial statements.”*

1.2 Comments on requirements

Paragraph 11

FEE believes the wording of this paragraph should be aligned with that of paragraph 10 (a): ‘misstatements, individually or in the aggregate, are material and pervasive’.

Paragraph 16

The obligation on the auditor to resign in paragraph 15 (b) (i) arises in circumstances where the auditor is unable to obtain sufficient audit evidence due to a limitation on the scope of the audit imposed by management. The obligation to resign is because the effects of that scope limitation are so material and pervasive. In our opinion, the auditor at that point frequently will not have obtained sufficient audit evidence to form an opinion on significant matters which might give rise to a modification of opinion. Therefore, to avoid misunderstanding, we propose paragraph 16 be reworded as follows:

“If the auditor concludes that resignation from the audit is necessary because of a scope limitation imposed by management, before resigning, the auditor shall communicate to those charged with governance any matters of which the auditor has become aware that, on the basis of the audit evidence obtained prior to resigning, would have given rise to a modification of the opinion regarding misstatements identified during the audit.”

Paragraph 23

FEE recommends a better linkage between this paragraph and paragraph 16, especially regarding the timing of the auditor’s communication to those charged with governance.

Paragraph 25

FEE suggests that the words “due to material misstatement in the financial statements” be added between “When the auditor expresses a qualified opinion,” and “the auditor shall...” in the first sentence of paragraph 25, in order to clearly distinguish modifications resulting from misstatement from those resulting from scope limitations.

1.3 Comments on Application Material

Paragraph A14 - Disclaimer of opinion for multiple uncertainties

FEE is concerned that the wording of paragraph A14 is not sufficiently clear. This paragraph could be interpreted as explaining circumstances in which the auditor has obtained sufficient appropriate audit evidence as to individual uncertainties but has *not* obtained sufficient audit evidence on the financial statements taken as a whole, such that on the basis of not having obtained sufficient audit evidence a disclaimer of opinion is not precluded. If this interpretation is indeed what the IAASB intended, we suggest paragraph A 14 be amended to clarify this.

Alternatively, this paragraph could be interpreted as explaining circumstances that would constitute an exception to the requirements of this Standard in respect of a disclaimer of opinion. Paragraph 12, (supplemented by the “decision tree”, in paragraph 5), which specifies the auditor can only disclaim an opinion on the financial statements due to the inability to obtain sufficient appropriate audit evidence, coupled with the auditor’s judgment that the effects or possible effects on the financial statements is material and pervasive. If this interpretation is indeed what the IAASB intended, we suggest the requirement may need to be amended so as to allow this degree of flexibility.

Furthermore, paragraphs 27 and 29 contain requirements only for the circumstances when the auditor disclaims an opinion *due to an inability to obtain sufficient appropriate audit evidence*. It is not clear from the requirements of Proposed ISA 705 whether other similar requirements ought also to apply when the auditor disclaims an opinion due to an inability to form an opinion on the financial statements as a whole due to the interaction and cumulative possible effects of the uncertainties, even though the auditor has obtained sufficient appropriate audit evidence about management's assertions regarding each of the individual uncertainties. FEE suggests the wording of these paragraphs be amended accordingly, should the IAASB consider it appropriate that similar requirements apply.

2. Responses 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?

Yes.

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 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