



Organización Internacional de Comisiones de Valores
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August 15, 2005

Mr. James Sylph
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017

Email Edcomments@ifac.org

Dear Mr. Sylph:

Re: Exposure Draft of Proposed International Standards on Auditing 705 & 706 Modifications to the Opinion in the Independent Auditor's Report and Emphasis of Matter Paragraphs and Other Matters Paragraphs

IOSCO's Standing Committee No. 1 on Multinational Disclosure and Accounting appreciates the opportunity to comment on the above-mentioned Exposure Drafts.

As securities regulators representing the public interest, we are committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing, and professional standards. Our comments in this letter reflect those matters on which we have achieved a consensus among members of Standing Committee No. 1 and are not intended to include all comments that might be provided by individual members on behalf of their respective jurisdictions.

We welcome the revised standards (ISAs) as, in general, they clarify the situation regarding modifications and emphasis of matter paragraphs in audit reports. However, we do have some reservations about how the ISAs may be interpreted in some circumstances and have some further suggestions for clarification.

We are concerned about the prevalent use of the caveat 'ordinarily' in much of these two standards. For example it is included in paragraphs 26, 27, 30 & 32 in respect of modifications to audit reports. We could understand the possibility that use of the word 'ordinarily' in this context enables the auditor to go further than a modified audit report (e.g. providing an adverse opinion) where the auditor considers it appropriate. However, we are more concerned that the opposite will happen, and inclusion of the word 'ordinarily' will lessen the requirement on the auditor to modify the audit opinion where appropriate and therefore may cause problems with consistent application of the standard. It may also lessen the auditor's resolve to face the need to modify the audit opinion where it is necessary.

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In the following sections we provide our responses to your specific questions, and then raise some other points which require clarification or consideration.

Specific questions

1. Should paragraph 33 of ISA 705 be retained?

The concern that is expressed in the Explanatory Memorandum is that the auditor may have a problem in distinguishing between when to use an emphasis of matter paragraph and when to disclaim an opinion in the auditor's report in the case of multiple uncertainties.

We are concerned that paragraph 33, as currently worded, may encourage auditors to default too readily to use of a disclaimer of opinion when that is not appropriate. The second sentence in paragraph 33 would seem to be the particular problem as it refers to multiple uncertainties as well as disclaimers of opinion in the same sentence. The occurrence of multiple uncertainties should not be confused in all situations with an inability to obtain sufficient audit evidence. Therefore we would suggest this sentence is deleted or, alternatively, clarified.

In addition, it should be clarified that the discussion on multiple uncertainties here relates to emphasis of matter paragraphs. There should be a linked discussion from paragraph 33 to ISA 706 in the context of the use of emphasis of matter paragraphs.

2. Is the use of sub-headings desirable in auditors' reports with modifications to the opinions and auditors' reports with an emphasis of matters paragraph or an other matters paragraph?

It may be helpful to present sub-headings in the auditors' report to aid users' understanding of what is presented. This might also help to minimize possible confusion over the status of emphasis of matters paragraphs and modification of opinion paragraphs.

3. Is the use of the terms 'significant uncertainty' and 'material uncertainty' likely to cause confusion?

Generally, it is preferable to use the same language throughout to avoid problems of misinterpretation, particularly when ISAs are translated into other languages. However, we understand that 'material uncertainty' is used in IAS 1, and 'significant uncertainty' in many of the ISAs. If it is considered necessary to use different terminology, given the interface with IFRS, it would be better that it is explained (in a footnote and the glossary) that though two terms are used, they have the same meaning.

Other matters

ISA 705

Qualifications if 'readily quantifiable'

In paragraph 27, it is stated that 'when a disagreement with management relates to specific financial statement line items, and is readily quantifiable.....the auditor ordinarily expresses a qualified opinion.'

It is not clear to us what happens if the area of disagreement is not readily quantifiable e.g. an aspect of a disclosure note in the financial statements. We would presume that there should also be

a qualification, and this is certainly suggested in paragraph 37 (b). However, it needs to be made more explicit in paragraph 27.

References to the financial reporting framework

In the example of a qualified audit report provided in Appendix 1, though there is a reference to the financial amount involved, there is no reference to the financial reporting framework involved. It would aid clarity if there were such a reference as currently included in the current ISA 701.

ISA 706

We welcome the tightening of the requirements for including an emphasis of matter paragraph in an audit report, and the necessity to include an emphasis of matter paragraph when the conditions laid out in paragraphs 6 & 10 are met. This should drive consistency of application and ensure that emphasis of matter paragraphs are not used inappropriately (e.g. when a qualified opinion would be appropriate). However we do have some concerns.

Status of paragraphs 6 & 10.

There seems to be an inconsistent approach to the requirements in these paragraphs. Paragraph 6 is a clear 'should' statement in bold. Paragraph 10 is a present tense requirement in grey lettering. Subsequent references to these two paragraphs in paragraphs 12 and 14 imply that for there to be an emphasis of matter paragraph, the conditions and criteria in paragraphs 6 and 10, respectively, must both be met. We would therefore suggest that it would aid consistent application if the contents of paragraph 10 were also translated into clear 'should' statements, in bold text, rather than the current present tense.

Examples provided

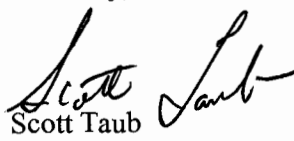
Though we appreciate the way in which the ISA limits the use of emphasis of matter paragraphs, it could be clarified how the examples provided meet the criteria provided. In addition, it could be clarified that the examples provided in paragraph 12 'may' meet the criteria in paragraphs 6 & 10. The examples provided in paragraph 12 would not always lead to emphases of matter.

Other points

There seems to be unnecessary repetition in paragraph 12 (example on related parties) and paragraph 15, which covers related parties.

This concludes our comments on the proposed ISAs 705 and 706. If you have any questions, please contact Susan Koski-Grafer at (202) 551-5349 or any member of the IOSCO SC 1 Auditing Subcommittee.

Sincerely,



Scott Taub
Chairman,
IOSCO Standing Committee No. 1