



October 31, 2005

Mr. Jim Sylph
Technical Director
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Dear Mr. Sylph:

We appreciate this opportunity to comment on the proposed International Standard on Auditing (ISA) 701, *The Independent Auditor's Report on Other Historical Financial Information*, and the proposed ISA 800, *The Independent Auditor's Report on Summary Audited Financial Statements*, (the "exposure drafts" or the "proposed standards") as developed by the International Auditing and Assurance Standards Board (IAASB). We are strongly supportive of the development of this guidance, specifically because it clarifies the position of standards and guidance contained in the extant ISA 800, *The Auditor's Report on Special Purpose Audit Engagements*, which has become outdated by the recent issuance of ISA 700, *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*.

As requested in the explanatory memorandum accompanying the exposure drafts, this letter includes our responses to questions posed by the IAASB, as well as other comments on specific paragraphs within the exposure drafts. Within our recommendations for editorial changes, additions are noted in "bold underline" and deletions in "double strike-through."

Responses to Questions Posed:

Question 1: Do you agree with the IAASB's conclusion that the standards and guidance for auditor's reports on summary audited financial statements should be retained within ISAs? If yes, do you agree that the standards and guidance should be placed in a separate ISA?

We agree with the IAASB's conclusion to retain standards and guidance on summary audited financial statements in the ISAs and support the decision to place such in a separate ISA.

Question 2: Do you agree with the description in paragraph 10, acknowledging that, depending on the circumstances of the engagement, the applicable financial reporting framework may encompass more than just accounting standards and legal requirements?

We agree that the applicable financial reporting framework may encompass more than just accounting standards and legal requirements. For example, some practices which are not explicitly provided for in a jurisdiction's financial reporting framework may be allowable, as evidenced by widespread use which is not expressly prohibited as part of the framework.

Question 3: Do you agree with the proposed distinction in paragraphs 15 and 16, and the effect that it has on the form of opinion? If not, clearly explain your preferred distinction and the effect that it has on the form of opinion.

We agree with the decision to use the phraseology "gives a true and fair view" for those frameworks designed to achieve fair presentation and "properly prepared, in all material respects" for other types of frameworks. However, we are not convinced that the everyday readers of financial statements will appreciate this subtle difference in wording.

Question 4: Do you agree with the proposals for forming an opinion in paragraphs 23 and 24? If not, clearly explain the reason for the disagreement.

We believe that in all situations (i.e., even when performing compliance-type engagements), it is critical for the auditor to consider that the financial statements are not misleading to the intended users of the information. We suggest that the following section of paragraph 24 be elevated to a requirement therefore, but some wording changes be made.

"Even where the other historical financial information has been prepared in accordance with a framework not designed to achieve fair presentation of the specific information presented, the auditor **shall** consider whether the information may be misleading in view of **the auditor's knowledge about** the nature of the entity and its environment, the nature and objective of the financial information, the applicable financial reporting framework and legal or regulatory requirements, the information needs of the intended users, and other matters, for example, events, transactions, conditions and practices that, **in the auditor's judgment**, may have a significant effect on the engagement."

Question 5: Do you agree that the ISAs should contain standards and guidance for an auditor's report issued as a result of an audit of one or more specific elements, accounts or items of a financial statement?

We agree that ISAs should contain standards and guidance for reporting on one or more specific elements, accounts or items of a financial statement. This is a widely used practice that is currently allowed by the ISAs and we do not believe there has been any evidence of misuse which would lead us to prohibit such reporting, or change the wording of such a report.

We understand that some critics of this position believe that it may be inappropriate to say that "accounts receivable is *fairly* stated," but we believe that one must read the entire statement of opinion to fully understand what it is saying. In the examples provided in the exposure draft, the opinion reads "...the schedule of accounts receivable and summary of significant accounting policies and other explanatory notes give a true and fair view *of the accounts receivable* of ABC Company...[emphasis added]." In this example, it is important to note that the opinion states that the information presents a fair view of the accounts receivable, not a fair view of all of the financial information.

Question 6: If your response to question 5 is yes, do you agree with the proposed standards and guidance for these types of reports? If not, how should they be amended?

We agree that, when reporting on one or more specific elements, accounts or items of a financial statement, an auditor should comply with relevant ethical requirements and other ISAs relevant to the audit.

Proposed ISA 800

Question 7: Do you agree with the proposed form of opinion on summary financial statements? If not, provide your preferred form of opinion and reasons for such preference.

We do not agree with the change from the extant wording (i.e., “consistent with the financial statements from which they were derived”) to the proposed wording of “appropriate summary of the financial statements” as we do not believe there are any current practice issues or confusion with the existing wording, and accordingly do not believe the change is justified.

Other Comments – Listed by Paragraph:

- **ISA 701, paragraph 2**

For consistency with ISRE 2410 “*Review of Interim Financial Information Performed by the Auditor of the Entity*”, we suggest the following bullet be added to the examples of other historical financial information:

- **A condensed set of financial statements prepared in accordance with a financial reporting framework designed for a general purpose, since by definition such financial statements cannot achieve fair presentation**

- **ISA 701, paragraph 3**

Paragraph 3 complements paragraph 2 by providing examples of the frameworks upon which other historical information may be reported. We recommend the inclusion of an example of a framework designed for a general purpose, but not designed to achieve fair presentation (bullet 1 in paragraph 2).

- **ISA 701, paragraph 8**

We would ask the board to consider the addition of illustrative guidance for this paragraph, including considerations of how “the auditor takes into account the nature of the entity...” such as:

- The auditor considers the concepts of materiality in relation to the component of financial statements being reported upon or to the criteria that the intended users of the other historical financial information expect to be applied

- In determining the scope of its audit of a component of financial statements being reported upon, the auditor may consider those financial statement items that are interrelated and which could materially affect the component being reported upon

- **ISA 701, paragraph 12**

The new EU Prospectus Directive requires that:

- The last two years of the audited historical financial information be presented in a form consistent with the accounting standards to be applied in the issuer's next financial statements [IFRSs in the case of an IPO]; and
- The historical annual financial information [in particular the last two years restated information] be audited and reported on in order to give a true and fair view [in accordance with IFRSs] for the purposes of the prospectus.

We were unsure how the guidance in paragraph 12 would apply in a situation like the one described above and would ask the board to consider the inclusion of an example or guidance to address this application.

- **ISA 701, paragraph 17**

We suggest that paragraphs 17 and 16 be inverted. Additionally, since there is no guidance in paragraph 17 regarding forming an opinion as to the appropriateness of the preparation equivalent to that provided in paragraph 23, we recommend that paragraph 17 address only a financial reporting framework designed to achieve fair presentation.

- **ISA 701, paragraph 23**

There is a risk that footnote 4 could be read to imply that the auditor should consider the fair presentation even in cases where a "properly prepared" opinion is required and that the requirement could thus appear excessive. We suggest the footnote be reworded to:

This responsibility also applies in circumstances described in paragraph 17.

- **ISA 701, paragraphs 30 and 31**

We would ask the board to consider whether restated historical information presented in an EU prospectus would be considered prepared in accordance with a financial reporting framework designed for a special purpose as described in paragraph 30. If so, the requirement to restrict use would not be feasible.

- **ISA 701, report examples 3 and 5**

We suggest the addition of the following footnote to these examples:

Under certain GAAP frameworks, a fair presentation cannot be claimed for a single financial statement or item of a financial statement.

Further, we would ask the board to consider whether since IAS 1.14 requires compliance with all requirements of IFRS, a “true and fair view ... in accordance with the requirements of IFRSs” opinion would be acceptable.

- **ISA 800, paragraph 3**

We recommend that the following bullets be added to the paragraph:

- **A set of condensed financial statements prepared in accordance with a financial reporting framework designed for a general purpose, not designed to achieve fair presentation**
- **Summary financial statements when another auditor has issued a report on the financial statements from which they have been derived**

- **ISA 800, paragraph 12**

We believe that it is very important for criteria to be available to users, especially in circumstances when established criteria do not exist. For this reason, we strongly believe that paragraph 12 should be elevated to a bold-lettered requirement.

- **ISA 800, paragraph 18**

We agree with this paragraph, and would ask the board to consider providing guidance, or a reference to guidance, for situations when the auditor becomes aware of subsequent events occurring after the date of the auditor’s report.

- **ISA 800, paragraph 19**

We suggest that the auditor’s report also include:

- A statement that it is not the auditor’s responsibility to update the audit report on the financial statements from which the summary financial statements have been derived to reflect and/or take into account the events that occurred subsequent to the date of the audit report, and;
- The language currently included in footnote 2 in the report examples, beginning “These financial statements....” The remaining portion of footnote 2 would then be included as a footnote to the report.

- **ISA 800 – Restriction on distribution or use of the report**

We suggest that a paragraph on “restriction on distribution or use” be inserted in the standard, similarly to paragraphs 30 and 31 in ISA 701, since the criteria for summarizing the financial statements may depend on the intended users.

We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact P. Nicholas Fraser at + 1 (212) 492-4118.

Very truly yours,

/s/ Deloitte Touche Tohmatsu