



December 18, 2007

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

Dear Mr. Sylph:

We appreciate this opportunity to comment on proposed International Standard on Auditing (ISA) 700, The Independent Auditor's Report on General Purpose Financial Statements, (the "proposed standard") as developed by the International Auditing and Assurance Standards Board (IAASB).

**RESPONSES TO SPECIFIC QUESTIONS:**

Below are our views on the specific areas identified by the IAASB in the exposure draft of the proposed standard.

1. 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.

*We support the proposal to move guidance on "evaluation of whether the financial statements as a whole are free from material misstatement" from ISA 450 to ISA 700.*

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.

*We are not in a position to respond to this issue at this time. We are still in the process of formulating our response to the IASB issue related to frameworks described by reference to IFRSs. We plan to submit a comment to the IAASB at the same time as the IASB comments are due.*

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.

*We support the proposal to incorporate the guidance from IAPS 1014 into ISA 700 and to withdraw IAPS 1014.*

**RESPONSES TO THE APPLICATION OF THE CLARITY DRAFTING CONVENTIONS:**

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

*Yes, we believe that the objectives as stated in the proposed redrafted ISA are appropriate.*

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?

*Yes, we believe that the criteria have been applied appropriately and consistently, and that the resulting requirements promote consistency in performance and reporting, and the use of professional judgment by auditors.*

**OVERALL COMMENTS:**

• **Description of Management’s Responsibilities for the Financial Statements**

We agree with the proposal amend the proposed standard as part of conforming changes related to proposed ISA 580, Written Representations. We strongly believe that it is important to have these two standards be consistent in their description of management’s responsibilities, as well as the reporting requirements relating to such.

• **Required Wording**

Throughout the proposed standard, the phrase “the auditor’s report shall state that...” is used. There are also items which are in parentheses, for example, names of the headings of various sections of the auditor’s report. We believe that it is important for the proposed standard to clarify those instances in which compliance with the proposed standard would require the exact wording included in the standard versus alternative wording that meets the essence of the proposed standard.

The IAASB’s intention with respect to the requirement to use the specific words included in the standard should be easily understood by all readers and not subject to interpretation. Therefore, we recommend that the IAASB determine their intention, and explicitly specify such in the proposed ISA.

**COMMENTS BY PARAGRAPH:**

• **Paragraph 7: Align Definition of Financial Statements with proposed ISA 800**

The definition of financial statements in the proposed standard is not in alignment with the definition of financial statements in proposed ISA 800. The definition in ISA 800 contains the phrase, “includes related explanatory notes.” We suggest that the IAASB add “related explanatory notes” to the definition of financial statements in paragraph 7 of the proposed standard.

• **Paragraph 10(a): Unnecessary Sentence**

We believe that the last sentence of paragraph 10(a) reads more like application material. We suggest either moving back to the application material sentence or deleting it all together.

• **Paragraph 16: Evaluating Whether Compliance Frameworks Are Misleading**

Paragraph 16 states that the auditor is not required to evaluate whether financial statements that are prepared in accordance with compliance frameworks are misleading. The paragraph goes on to include a requirement for those circumstances when the auditor does, in fact, conclude that such financial statements are misleading.

We believe that the paragraph is inconsistent with itself, as it could be read to imply a requirement for the auditor to conclude on whether the financial statements are misleading, regardless of the type of framework used. The current application material in paragraph A14 does not provide any guidance on how or when to assess whether the financial statements that are prepared in accordance with compliance frameworks are misleading. We do not believe that it is possible to clearly define and include such guidance in the proposed standard, especially considering the “extremely rare circumstances.”

Accordingly, we strongly recommend that paragraph 16 and related paragraph A 14 be deleted in their entirety.

We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact Jens Simonsen, Director of Global Audit Services at + 1 212 492 3689 or John Fogarty, Chairman – DTT Assurance Technical Policies and Methodologies Group at + 1 203 761 3227.

Very truly yours,

