

20 October 2006

Mr. John Kellas
Chairman
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, NY 10017

Dear Mr. Kellas,

Identification of Significant Audit Issues in Recent IASB proposals

We appreciate the opportunity to comment on the request from the International Auditing and Assurance Standards Board (IAASB) for identification of significant audit issues in recent proposals by the International Accounting Standards Board (IASB).

We have concerns about measuring some items in the financial statements at fair value, including whether it is possible to develop sufficient accounting and auditing guidance on measuring fair value reliably. In the appendix to this letter, we have referred to significant audit issues that we have included in our recent comment letters to the IASB as well as an issue arising out of practice. In previous years, we have also highlighted audit issues and concerns around fair value measurement more generally, and specifically on financial instruments and share-based payments.

In future, we will seek to incorporate into our comment letter process alerting the IAASB when we identify significant audit issues arising out of IASB proposals.

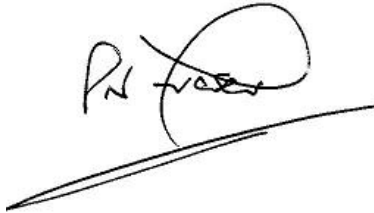
We commend the IAASB to comment directly to the IASB on significant audit issues at least in respect of key projects as this will send clear and strong messages on behalf of the audit profession at large. In particular, we would highlight the current joint discussion paper from the IASB and the US Financial Accounting Standards Board (FASB) dealing with the Conceptual Framework. This project includes fundamental discussions around the objective of financial reporting and fair value measurement.

We do, however, have a concern about the manner in which comments about auditability should be phrased. If the IAASB were to say publicly that a fair value measurement cannot be audited to the level of reasonable assurance, then the logical consequence would be for auditors to qualify their opinions due to a scope limitation since they could not obtain reasonable assurance. Ultimately some sort of recognition that fair value measurements are not made at a reasonable assurance level is necessary. We believe that it would be better for the level of assurance or “precision” of such measurements to be disclosed in the financial statements rather than through a scope limitation expressed in the auditor’s report.

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Deloitte Touche Tohmatsu
October, 2006

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 +33 1 55 61 21 87 or Ken Wild at +44 20 7007 0907.

Very truly yours,

A handwritten signature in black ink, appearing to read "P. Fraser", is written above a long, horizontal, slightly wavy line that serves as a signature underline.

APPENDIX

AUDIT ISSUES HIGHLIGHTED IN RECENT COMMENT LETTERS TO THE IASB

In our comment letters on IASB proposals since January 2005, we have raised the following specific concerns regarding audit issues:

- In October 2005, we raised concern on the Proposed Amendments to IFRS 3 Business Combinations in relation to valuation issues on grossing up goodwill, estimation of fair value of businesses, exposure to second-guessing by regulators and litigants (see page 2 in our comment letter from October 26, 2005).
- Also in October 2005 and in the same letter, we highlighted practical implications of requiring adjustment of comparative information for prior periods for "measurement period adjustments" under the Proposed Amendments to IFRS 3 Business Combinations, when predecessor auditors are unable to reissue an audit opinion on statements changed as a result of retrospective application due to independence matters and other predecessor auditor issues (see page 12 of the letter from October 26, 2005).
- In our comment letter from October 27, 2005 on the Proposed Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets, we stated on page 1 that we do not support the suggested changes, except for the proposals for restructuring provisions. We do not think that the Board's choice of a single measurement attribute is appropriate. As such, we find the majority of the changes proposed in the ED fail to achieve an improvement in financial reporting for one or more of the following reasons:
 - The proposals will not provide sufficiently reliable and relevant information to users of financial statements.
 - The proposals and their rationale, are confused and/ or confusing. In particular, the proposals separate recognition and measurement for what are currently known as contingent liabilities and these are not readily separable in practice.
 - In their current form, the proposals cannot be implemented in such a way that the necessary high degree of consistent application can be achieved.
- In March 2006, we made comments about undervaluing significant audit issues in the Discussion Paper on Management Commentary in order to assert compliance with IFRS, including increase audit time and cost similar to those required by Sarbanes Oxley, Section 404 (see page 4 in our comment letter from March 17, 2006). Further, we do not believe that it is within the IASB's mandate to make a requirement for consistency between the management commentary and the IFRS financial statements. This is already addressed by the auditing guidance issued by the IAASB (see page 6 of the same letter).

For further information, we refer to our comment letters on www.iasplus.com under "Deloitte Comment Letters".

In April 2006, we were also made aware of the issue of whether pro forma disclosures in IFRS 3, paragraph 70 about entities in business combinations as if combined since the beginning of the period could be audited. It was agreed that they should be audited under the auditing guidance issued by the IAASB. But concerns were raised on whether there are appropriate criteria to audit it against. This is different in the United States, where such disclosures do not need to be audited.