



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) 705, Modifications to the Opinion in the Independent Auditor's Report, (the "proposed standard") as developed by the International Auditing and Assurance Standards Board (IAASB).

Within our recommendations for editorial changes, additions are noted in "bold underline" and deletions in "double strike-through."

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

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

*Yes, we believe that the objective as stated in the proposed redrafted ISA is 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 COMMENT:**

• **Definition of “Pervasive”**

We support the inclusion of a definition of the term “pervasive” in the proposed standard, as we believe it is fundamental to the understanding of the proposed standard.

**COMMENTS BY PARAGRAPH:**

• **Paragraph A14:**

We recommend the following editorial change, to remove the use of present tense in the guidance when not necessary:

A14. ...The auditor ~~is not~~ **would not be** precluded from disclaiming an opinion in such a situation.

• **Paragraph A19:**

This paragraph states that a combination of opinions (i.e., unmodified on one account and an adverse or disclaimer of opinion on the financial statements as a whole) cannot be presented in the same report. However, proposed ISA 800 allows for a separate report to be issued with an unmodified opinion on the selected account. We believe that paragraph A19 in the proposed standard should reference this provision in the proposed ISA 800.

• **Paragraph A22:**

We recommend the following editorial revision:

A22. An example of the financial effects of material misstatements that the auditor may describe in the basis for modification paragraph in the auditor’s report is the quantification of the effects on income tax, **income before taxes**, net income and equity if inventory is overstated.

• **Paragraph A30:**

We recommend the following editorial change, to remove any inference that the list in paragraph A30 might be all-inclusive:

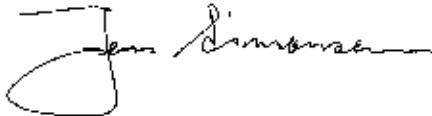
A30. Communicating with those charged with governance the circumstances that lead to an expected modification to the auditor’s opinion and the proposed wording of the modification enables, **among other things**:

- **Example Reports #3 and #4:**

Both of these reports related to insufficient evidence obtained in group audit situations where the group auditor was denied access to information. Do the acceptance criteria in ISA 600 allow the group auditor to accept these types of engagements if it was known in advance that sufficient appropriate audit evidence could not be obtained for these components? We recommend that the IAASB revise these examples to reflect other situations (other than group audits) where the auditor was unable to obtain sufficient appropriate audit evidence, so as not to commingle two potentially different issues into one example.

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,

A handwritten signature in black ink, appearing to read "Jens Simonsen". The signature is written in a cursive style with a large, looped initial "J".