

### ISA 701 Detailed Responses by Paragraph

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|---|---------------|------------|----------|------------------|---|
|   |               |            |          |                  | <b>General</b>  |
|   | BASEL         | 32         | R        |                  | The Committee is pleased to note the efforts for clearer guidance on the form and content of the auditor's report. We are comfortable with the two-stage approach to the revision of ISA 700 and the proposal to split the extant Standard into two ISAs, a revised ISA 700 when the auditor is able to express an unqualified opinion and no modification of the report is necessary and a new ISA 701, "Modifications to the Independent Auditor's Report". However, we would urge the Board to proceed with the project dealing with the new ISA 701 as quickly as possible.   |
|   | BASEL         | 32         | R        |                  | We understand that ISA 701 "Modifications to the Independent Auditor's Report" will not be fully revised until 2005, but we question whether the proposed interim guidance provided is sufficiently clear. Since the scope paragraph of the auditor's report has significantly changed in ISA 700, we recommend that the illustrations in the final ISA 701 be amended to reflect the new wording in the auditor's report and to show how the concluding sentence of the auditor's responsibility section of the auditor's report, "We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion on the financial statements", should be amended when the issuance of a modified auditor's report is appropriate (e.g., for a scope limitation).  |
|   | FSR           | 1          | SS       |                  | For practical purposes we recommend not to split the extant 700 into two ISAs especially when an ISA 701 is not published for exposure simultaneously with the revised ISA 700  |
|   | KIBR          | 2          | MB       |                  | We do not submit any comments to ISA 701. We suggest, however, to merge two standards (i.e. ISA 700 and ISA 701) into one, since both cover the same subject, that is, how to express auditor's opinion on audit of financial statements. For example it is, in our view, questionable why the emphasis of matter paragraph, which is not in fact a qualification to the opinion, is included in ISA 701 and not in ISA 700. In case the standards are unified, such doubts would not appear. The IAASB proposed solution means that there would be a separate standard dealing only with "A marked" statements, while all the others are moved to another standard.  |
|   | Richard Regal | 6          | IMA      |                  | As for the current exposure draft, I believe that it would be preferable to include the guidance on modified and unmodified reports in the same standard rather than to have two separate standards, although I do not feel strongly about the matter. I believe that a standard that deals with all aspects of a report on a subject matter should be kept in the same standard rather than having standards on "positive" and "negative" audit reports in separate ISAs. If a standard is to deal adequately with how the auditor's opinion on the financial statements is to be expressed it should deal with situations where the auditor's opinion is that the financial statements do not give a true and fair view as well as situations where they do. Failing to include these matters in the same standard means that the auditor's thought process has to be explained (and regulated) in different standards depending upon what the results of that thought process lead to. I hope that, notwithstanding my comments above about piecemeal revisions, when the IAASB revises ISA 701 it takes the opportunity to merge the two standards. |
|   | ICANZ         | 3          | MB       |                  | <p>The PPB does not support the proposal to split extant ISA 700 into two standards dealing with unqualified audit reports and modified audit reports. Proposed ISA 701.</p> <p>3.1 The PPB considers that all standards and guidance on the independent auditor's report should be maintained in one standard for ease of use by professional accountants. ISA 700 should therefore, include the standards and guidance contained in proposed ISA 701 Modifications to the Independent Auditor's Report.</p> <p>3.2 The PPB understands that the extant ISA 700 was split into two separate standards to assist in managing the project in an</p>  |

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|   |                      |            |          |                  | <p>efficient manner and to ensure that a comprehensive standard on unqualified audit reports is in place for 2005.</p> <p>3.3 However, the PPB considers that the splitting of extant ISA 700 into two standards could lead to confusion.</p> <p>3.4 At present there are references in ISA 700 to types of audit opinions that are not defined or discussed in ISA 700. For example, paragraph 61 of ED ISA 700 requires a "...disclaimer of opinion in the auditor's report with respect to that information" where unaudited supplementary information is not sufficiently differentiated from the audited financial statements.</p> <p>3.5 Guidance on disclaimers of opinion is provided in proposed ISA 701 but no reference to this proposed standard is made in ISA 700, paragraph 61.</p> <p>3.6 In addition, proposed amendments to ISA 200 Objective and General Principles Governing an Audit of Financial Statements, paragraphs 47-49, refer to ISA 700 and ISA 800 but no reference is made to ISA 701.</p> <p>3.7 A further issue of concern is ISA 800 The Independent Auditor's Report on Special Purpose Audit Engagements.</p> <p>3.8 The principles applied in conducting an audit are the same, irrespective of the subject matter of the audit and the principles underlying the issue of an audit report on completion of an audit should, likewise, be the same.</p> <p>3.9 The PPB strongly recommends that, on completion of the review of the contents of proposed ISA 701, the standards and guidance contained in ISA 700 and ISA 701 be incorporated into one standard.</p> <p>3.10 This will enable clear, comprehensive guidance on audit reports to be found in one standard as well as being more concise by reducing duplication of material.</p> <p>5.16 The PPB notes that the title of proposed ISA 701 is Modifications to the Independent Auditor's Report.</p> <p>5.17 The PPB recommends that the title of the standard be amended to read Modifications to the Independent Auditor's Report on a Complete Set of General Purpose Financial Statements for consistency with the title of the proposed ISA</p> |
|   | ICAI                 | 8          |          |                  | <p>8. The separation of ISA 700 extant in to two separate standards will not assist users of the standards. It separates and decouples linked concepts and related requirements. We suggest recombining the proposed ISA 700 and ISA 701 into a single standard.</p>   |
|   | CNCC/OEC             | 9          |          |                  | <p>Split ISA 700/ ISA 701</p> <p>The two French Institutes understand the reasons of the split between ISA 700 and ISA 701 which are mainly related to the need to meet the 2005 deadline in the perspective of the adoption of ISAs by the European Union. The French Institutes agree that the importance of being ready for 2005 is such that it justifies the decision to do this. They however consider that the split between ISA 700 and ISA 701 complicates the use of the standards for the auditor.</p> <p>That is why, it is important that the IAASB makes sure that the perceived improvement from the new auditor's report outweighs the complexity generated by the split between ISA 700 and ISA 701, particularly given the high expectation that the revision of the standard has created amongst auditors and regulators certainly and perhaps amongst users to. If the above mentioned consultation of specific users such as investors, banks, financial analysts, rating agencies or representatives of shareholders does not show a significant improvement in the perception of the auditor's report, then the IAASB should seriously question whether it has not failed in one of its objective (i.e. to improve the clarity of the auditor's report) while at the same time creating an overly complex mechanism for the auditors using the standards.</p>   |
|   | ACCA England         | 16         |          |                  | <p>The IAASB will be aware of the fact that the Auditing Practices Board (APB) in the United Kingdom has issued a separate standard on the overall review of financial statements. Given the decision to deal separately in ISAs with modified and unmodified reports, and the potential for duplication of material, we suggest that consideration be given to the creation of a separate ISA for the overall review of financial statements. This could be done during the development of the proposed revised ISA 701 Modifications to the Independent Auditor's Report</p>   |
|   | Public Accountants & | 19         |          |                  | <p>We are concerned that ISA 700 will be issued while a project to review the proposed ISA 701, Modifications to the Independent Auditor's Report, is still underway with an exposure draft expected in early 2005. As most of the guidance relating to audit report</p>   |

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|   | Auditor's board<br>Jo-Burg |            |          |                  | modifications previously contained in the extant ISA 700 has been moved to the proposed ISA 701, we believe the revised ISA 700 needs to be issued simultaneously with the new draft ISA 701, or preferably, to re-incorporate the guidance on audit report modifications in the revised ISA 700. Presently, the proposed ISA 701 does not contain any bold – lettered principles and is really guidance on audit reports, the principles of which are contained in ISA 700.  |
|   | KPMG                       | 24         |          |                  | We find the description of the effective date in proposed ISA 701 confusing. We recommend that the IAASB change the effective date of this ISA so that it is the same as revised ISA 700 since auditors will only need to refer to ISA 701 when they apply revised ISA 700.   |
|   | AUASB                      | 25         |          |                  | The AuASB appreciates that from a logistical perspective there is merit in separately progressing the projects to review auditing standards for unqualified and modified audit reports. However, the AuASB recommends that once the detailed guidance for these respective projects is complete, the auditing standards dealing with the auditor's report should be contained in one ISA. At a national level, professional accountants refer to and utilise the audit report standards and guidance frequently. To that end, for ease of reference proposed revised ISA 700 and proposed ISA 701, which will both deal with the auditor's report on a complete set of general purpose financial statements, should be combined.  |
|   |                            |            |          |                  | If, as expected, the proposed revised ISA 700 is issued prior to the issue by the IAASB of a proposed ISA 701 dealing with modified auditors' report, then we suggest that the interim ISA 701 should be issued incorporating the relevant paragraphs from the existing ISA 700 (based on paragraphs 29 to 46). Issuing a complete interim version of ISA 701 is preferable to incorporating these requirements in the form of conforming changes, as this makes reference to the appropriate guidance confusing to users, given they will need to also consult the former version of ISA 700 for the relevant guidance.  |
|   | AICPA                      | 28         | SS       |                  | <p>This is repeated in general comments in ISA 700</p> <p>The proposed standard addresses the auditor's report on a full-set of general-purpose financial statements, when there are no modifications to the auditor's report. We understand that the IAASB intends to consider projects on 701, <i>Modifications to the Independent Auditor's Report</i>, and 800, <i>The Independent Auditor's Report on Special Purpose Audit Engagements</i>, in the near future. It is impossible to anticipate the implications of the proposed standard without knowing how ISAs 701 and 800 will address modified auditor's reports and special reports. We believe that the commentators on the proposed standard are not being given the opportunity to see the whole picture. Therefore, the comments that the IAASB receives on the proposed standard may be incomplete. We would support delaying the issuance of this standard, and exposing and issuing the three related standards simultaneously. In fact, we question whether the exposure of this standard alone constitutes proper due process.</p> <p>We would consider issuing this standard alone to be a fatal flaw if the International Auditing and Assurance Standards Board (IAASB) does not undertake the projects on ISAs 701 and 800 immediately. Furthermore, the task forces that address those projects must be given the authority to amend a newly issued ISA 700 to address any issues that are unanticipated at this time, but will become apparent as those future projects move forward.</p> <p>Reading the agenda materials for the April 2004 IAASB meeting, we notice that the task force that is amending ISA 701 has proposed that it will revise emphasis of matter requirements with the intention of placing the revised discussion in ISA 700 as part of a conforming change. We agree that guidance on emphasis of a matter belongs in ISA 700, but we believe that this proposed change goes far beyond what can be classified as a "conforming change." It would be more appropriate to expose and issue these three standards simultaneously.</p> <p>As an example of a circumstance that might not be appropriately addressed in the group of standards, in the United States, non-public broker-dealers of securities file a balance sheet only, with related disclosures, with the Securities and Exchange Commission. The auditor reports on this presentation as a complete presentation, albeit understood that this presentation is for regulatory purposes and</p> |

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|    |                |            |          |                  | for broker-dealer customers, under the US reporting framework. The proposed ISA would require this presentation to be reported on under ISA 800. Since we do not know how ISA 800 will treat reporting on this purportedly “incomplete” set of financial statements, we cannot comment on the appropriateness of the scope of the proposed ISA.   |
|    | IOSCO          | 39         | R        |                  | <p><u>Timetable for the Project</u> We believe that the IAASB should consider whether evolving national changes affecting auditor reports, subsequent changes to ISA 700 that may be expected to arise in the project on ISA 701, the need to settle on a satisfactory approach to improve clarity in auditing standards, or other matters warrant a change to the present workplan or timetable for this proposed ISA. The issue of consistency and suitability of the auditor's report from an investor perspective is obviously a very fundamental issue that would benefit from thorough debate from both an investor and an auditor perspective.</p> <p>In light of the importance of the auditor's report as the visible product of the audit, we believe that the Board should give consideration to extending this project. This would provide additional time to seek and consider the other factors affecting the auditor's report, beginning with the comment letters to the ED, but not limited to such input. We suggest that the Board could undertake to specifically seek user inputs through a meeting or roundtable or otherwise, and also review auditor report changes being made or contemplated in jurisdictions around the world. A significant extension of this project might also enable the Board to consider modified as well as unmodified auditor reports at the same time.</p> <p>If due consideration of all issues impacting this project is not feasible in the short term, and the decision is made nonetheless to finalize the ISA 700 standard in time for 2005, we urge the Board to manage the work on ISA 701 to include reconsideration of ISA 700 impacts more broadly, rather than just as conforming change activity.</p> |
|    | BDO            | 34         | FIRM     |                  | The Explanatory Memorandum states that an exposure draft in relation to a new ISA 701, "Modifications, to the Independent Auditor's Report", is expected in 2005. As the revised ISA 700 is proposed to be effective from 31 December 2005, there is likely to be a period of time where ISA 700 is approved and released, but ISA 701 is still in Exposure Draft form. If this is the case, guidance will be needed on which ISAs are extant for this period of time, to ensure appropriate guidance is available for all eventualities.   |
|    | NIVRA          | 33         | MB       |                  | In the proposed ISA 700, modifications to the auditor's report have been deleted from ISA 700 and placed in a separate ISA 701. We would refer that both unmodified and modified are dealt with in the revised ISA 700.   |
|    |                |            |          |                  | <b>Paragraph Amendments</b>   |
| 2  | Grant Thornton | 20         | FIRM     | 2                | Paragraph 2 (effective date) – The effective date currently reads as if the IAASB will release the proposed conforming amendment subsequent to December 31, 2005 (the date the revision to ISA 700 becomes effective). If this is not the IAASB's intent, we suggest revising the effective date, as appropriate  |
| 10 | KPMG           | 24         | FIRM     | 10               | The final sentence suggests an emphasis matter paragraph may be used when there are additional statutory reporting responsibilities. This is inconsistent with the position taken in revised ISA 700.43, which suggests that such reporting responsibilities would be addressed in a separate section of the report. We recommend deleting this sentence.   |