



International Federation of Accountants

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Agenda Item

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Committee: IAASB

Meeting Location: Hong Kong

Meeting Date: March 6–10, 2006

Modifications

Objectives of Agenda Item

1. To review the significant comments received from respondents on the exposure drafts of the proposed ISA 705, “Modifications to the Opinion in the Independent Auditor’s Report” (ED 705), and the proposed ISA 706, “Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor’s Report” (ED 706).
2. To review first-read drafts of the proposed ISAs 705 and 706 prepared under the current drafting conventions, taking into account the comments received on exposure.

Background

The members of the task force are:

- Jan Bo Hansen (Chair, IAASB Member)
- Philip Ashton (IAASB Technical Advisor and former IAASB Member)
- Craig Crawford (IAASB Member)
- Mary Radford (INTOSAI Representative)
- Roger Simnett (former IAASB Member)
- Sylvia Smith (IAASB Technical Advisor)

Mary Radford has replaced Bettina Jakobsen as the INTOSAI representative.

EDs 705 and 706 were issued in March 2005, and the comment period closed on July 31, 2005. This is a reporting standards project and it is closely associated with the revised ISA 700, “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” (issued in December 2004), and the current project to revise ISA 800, “The Auditor’s Report on Special Purpose Audit Engagements.”

Activities since Last IAASB Discussions

The task force held three physical meetings in October 2005, December 2005 and January 2006 to discuss the comments received on exposure, and to develop the wording of the first-read drafts, post-exposure, of the proposed ISAs 705 and 706. The task force also subsequently met by conference call in January 2006 to finalize the issues paper and the wording of the first-read drafts.

Material Presented

Agenda Item 2-A Issues Paper

(Pages 3 – 20)

Agenda Item 2-B First-Read Draft of the Proposed ISA 705 (Clean)

(Pages 21 – 40)

Agenda Item 2-C First-Read Draft of the Proposed ISA 705 (Markup from Exposure Draft)

(Pages 41 – 76)

Agenda Item 2-D First-Read Draft of the Proposed ISA 706 (Clean)

(Pages 77 – 88)

Agenda Item 2-E First-Read Draft of the Proposed ISA 706 (Markup from Exposure Draft)

(Pages 89 – 102)

Agenda Item 2-F Detailed Compilation of Comments:

(Pages 103 – 250)

2-F.1 ISA 705: Detailed Comments by Paragraph

2-F.2 ISA 706: Detailed Comments by Paragraph

2-F.3 Responses to the Three Explanatory Memorandum Questions

2-F.4 Comments on Special Considerations for ISAs 705 and 706

2-F.5 Comments of a General Nature

Drafts to be Discussed during the Meeting

Given the relatively significant changes being proposed to the exposure draft wording (a large part of which arises from restructuring and elimination of duplication), the task force proposes that the IAASB discuss the clean versions of the first-read drafts during the meeting. Accordingly, in reviewing the material presented, the IAASB should focus on **Agenda Items 2-B** and **2-D**.

Action Requested

The IAASB is asked to consider the issues presented and the proposed changes to the exposure draft wording, and to provide the task force with feedback and guidance in finalizing the revised wording of the proposed ISAs 705 and 706 under the current drafting conventions.

Way Forward

The task force will not be seeking input from the IAASB at this meeting on wording that might be appropriate for the redrafted proposed ISAs under the Clarity drafting conventions. The task force intends to present at the May 2006 IAASB meeting (a) revised drafts of the proposed ISAs for close-off under the current drafting conventions (i.e. to be approved in principle but not to be issued), and (b) proposed conforming amendments. The task force notes that the IAASB may consider it appropriate to issue the Clarity exposure drafts of the proposed ISAs 705 and 706 at the same time as those of the extant ISA 700 and the proposed ISAs 701 and 800 later this year, so that they form a single exposure draft package of reporting standards. In this regard, the task force proposes to present the Clarity drafts of the proposed ISAs 705 and 706 for in-principle approval as exposure drafts at the July 2006 meeting, in advance of the finalization of the exposure drafts of the redrafted ISA 700 and redrafted proposed ISAs 701 and 800.