



International Federation of Accountants

545 Fifth Avenue, 14th Floor, New York, NY 10017 USA

Tel +1 (212) 286-9344 Fax +1 (212) 286-9570 www.ifac.org

Agenda Item

8

Committee: IAASB

Meeting Location: Brussels

Meeting Date: July 10–13, 2006

Modifications

Objectives of Agenda Item

1. To review the final wording changes to the revised drafts of the proposed ISA 705, “Modifications to the Opinion in the Independent Auditor’s Report”, and the proposed ISA 706, “Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor’s Report,” discussed at the previous IAASB meeting, for approval for close off.
2. To review further conforming changes arising from the proposed ISAs 705 and 706.

Task Force Composition

The members of the task force are as follows:

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

Background

At the May 2006 meeting, the IAASB reached a resolution on each of the main issues presented on the proposed ISAs 705 and 706. The IAASB also discussed final wording changes to the revised drafts, particularly for the proposed ISA 705 in relation to the description of the pervasiveness of a matter giving rise to a modification, the implications of a management-imposed scope limitation, and the requirement to include in the auditor’s report information that management has failed to disclose. To allow additional time for these final changes to be considered, the IAASB asked that the task force present the revised drafts at the July 2006 IAASB meeting for approval.

The task force has not held a formal meeting since the May 2006 IAASB meeting but has considered the final wording changes now presented and believes they are appropriate. The task force would also like the IAASB to consider the following issue that was not discussed in May.

Issue Regarding ISA 710

CONSIDERATION OF THE NEED TO REVISE ISA 710

In deliberating conforming amendments, the task force could not reach a consensus with respect to how the principles in the proposed ISA 705 would be applied to corresponding figures covered by ISA 710, “Comparatives.” The task force concluded that the requirements in ISA 710 are unclear and that any attempt to adapt them to conform to ISA 705 would run the risk of setting new standards and going beyond only conforming amendments. Accordingly, the task force recommends that the IAASB undertake a separate project to revise ISA 710. Given the need to have a coherent set of revised reporting standards, the task force also believes there is ground for accelerating revisions to ISA 710. An illustration of the problems that the task force had in applying the principles in ISA 705 to ISA 710 is set out below.

The general principles with respect to corresponding figures are established in ISA 710.10 and 710.11. ISA 710.10 states that the “auditor should issue an auditor’s report in which the comparatives are not specifically identified because the audit opinion is on the current period financial statements as a whole, including the corresponding figures.” ISA 710.11, on the other hand, states that the “auditor’s report would make specific reference to the corresponding figures only in the circumstances described in paragraphs 12, 13, 15(b), and 16-19.” These paragraphs deal with circumstances where the auditor has identified or identifies problems with the corresponding figures.¹ The issue arises because ISA 710.11 does not explain what is meant by “specific reference to the corresponding figures” and whether this is to be interpreted as making reference to the corresponding figures in the opinion paragraph or in Basis for Modification paragraph, or both.

Accordingly, the task force could not agree on the application of the above to a situation where the auditor identifies a disagreement with management in the current year that is also relevant to the prior year (for example, because an accounting standard requires retrospective application of a requirement). Some task force members believed that ISA 710 should be amended to require the Basis for Modification paragraph to include quantification of the effects on the corresponding figures as well as on the current year figures, even though the auditor’s opinion would make no reference to the corresponding figures. Other task force members disagreed with this position because for corresponding figures the auditor’s opinion covers only one period.

¹ For example, paragraph 12 of ISA 710 states the following:

12. **When the auditor’s report on the prior period, as previously issued, included a qualified opinion, disclaimer of opinion, or adverse opinion and the matter which gave rise to the modification is:**
 - (a) **Unresolved, and results in a modification of the auditor’s report regarding the current period figures, the auditor’s report should also be modified regarding the corresponding figures; or**
 - (b) **Unresolved, but does not result in a modification of the auditor’s report regarding the current period figures, the auditor’s report should be modified regarding the corresponding figures.**

Material Presented

Agenda Item 8-A Close-Off Draft of the Proposed ISA 705 (Mark-up from New York)
(Pages 1595 – 1616)

Agenda Item 8-B Close-Off Draft of the Proposed ISA 705 (Clean)
(Pages 1617 – 1638)

Agenda Item 8-C Close-Off Draft of the Proposed ISA 706 (Mark-up from New York)
(Pages 1639 – 1646)

Agenda Item 8-D Close-Off Draft of the Proposed ISA 706 (Clean)
(Pages 1647 – 1654)

Agenda Item 8-E Proposed Further Conforming Changes
(Pages 1655 – 1662)

Drafts to be Discussed during the Meeting

The task force recommends that the IAASB review the markup versions of the close-off drafts (**Agenda Items 8-A** and **8-C**) for discussion during the meeting.

Action Requested

The IAASB is asked to:

- (a) Consider the final wording changes discussed at the previous IAASB meeting and to approve the proposed ISAs 705 and 706 for close off under the current drafting conventions;
- (b) Approve the further conforming changes presented.

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