



International Federation of Accountants

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Agenda Item

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Committee: IAASB

Meeting Location: New York

Meeting Date: February 13-16, 2007

Modifications and EOMs/Other Matter(s)

Objective of Agenda Item

1. To review first-read drafts of the proposed redrafted:
 - ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*; and
 - ISA 706, *Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report*.

Task Force Composition

2. The members of the task force are:
 - Jan Bo Hansen – Chair, IAASB Member
 - Sylvia Smith – IAASB Technical Advisor

Activities since Last IAASB discussions

3. The task force met in December 2006 and held a conference call in January 2007 to discuss and finalize the wording of the proposed redrafted ISAs.

Issues

ISSUES COMMON TO ISAs 700, 705 AND 706

4. The Modifications task force would like to highlight that issues that are inter-related among the three proposed redrafted ISAs 700, 705 and 706 are noted in the covering memorandum to the proposed redrafted ISA 700 and will be raised by the ISA 700 task force during the discussion of that ISA at the February 2007 meeting. Accordingly, these issues are not noted here.

ISSUE SPECIFIC TO ISA 705: USE OF THE VERB “WOULD” IN PLACE OF THE PRESENT TENSE TO DENOTE AUDITOR ACTIONS

5. Paragraph 23 of the close off version of ISA 705 states:

“An inability to perform a specific procedure does not constitute a scope limitation if the auditor is able to obtain sufficient appropriate audit evidence by performing alternative procedures. If this is not possible, the auditor *qualifies* the opinion or disclaims an opinion as appropriate. ...”

6. On a preliminary basis, the task force has redrafted the present tense action in the second sentence of this paragraph, i.e. “the auditor *qualifies*...,” using the verb “would” (i.e. “would qualify”). The task force notes that the “would” formulation has been used in a number of redrafts of other ISAs.¹ However, the task force also notes that the present tense continues to be used in a number of other redrafts.² In relation to paragraph 23 of the proposed redrafted ISA 705 specifically, the task force is of the view that the retention of the present tense in this paragraph could be justified on the basis that the requirement to qualify the opinion in these circumstances is already specified in paragraph 10(b) – and therefore could not be mistaken for a new requirement.
7. The task force believes that the drafting guidelines for dealing with present tense actions that are described in the application material of an ISA and that clearly derive from obligations that are already specified in the Requirements section of the ISA, are currently unclear. As the matter affects the consistency of redrafting on other ISAs, the task force would like the IAASB’s direction as to how such present tense actions should be dealt with under clarity.

Matter for IAASB Consideration

What are the IAASB’s views on this matter?

Material Presented

Agenda Item 3-A (Pages 197 – 222)	Proposed ISA 705 (Redrafted) (Mark-up from Close-off Version)
Agenda Item 3-B (Pages 223 – 244)	Proposed ISA 705 (Redrafted) (Clean)
Agenda Item 3-C (Pages 245 – 260)	Mapping Document and Disposition of Present Tense for Proposed ISA 705 (Redrafted)

¹ For example, paragraph A10 of the redrafted ISA 230, *Audit Documentation*, states: “Examples of matters for which it *would* be appropriate to prepare audit documentation relating to the use of professional judgment include: ...”

² For example, in ISA 240 (Redrafted), *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*:

- Paragraph A44 states: “The auditor *uses* professional judgment in determining the nature, timing and extent of testing of journal entries and other adjustments.”
- Paragraph A60 states: “ISA 260 (Revised) identifies factors the auditor *considers* in determining whether to communicate orally or in writing. Due to the nature and sensitivity of fraud involving senior management, or fraud that results in a material misstatement in the financial statements, the auditor *reports* such matters on a timely basis and may consider it necessary to also report such matters in writing.”

Agenda Item 3-D (Pages 261 – 270)	Proposed ISA 706 (Redrafted) (Mark-up from Close-off Version)
Agenda Item 3-E (Pages 271 – 278)	Proposed ISA 706 (Redrafted) (Clean)
Agenda Item 3-F (Pages 279 – 284)	Mapping Document and Disposition of Present Tense for Proposed ISA 706 (Redrafted)

Draft of the ISA to be Discussed at the Meeting

The task force proposes that the **mark-up** versions of the proposed redrafted ISAs (**Agenda Items 3-A and 3-D**) be discussed at the meeting.

Action Requested

The IAASB is asked to consider the proposed redrafted ISAs and provide feedback and direction to the task force.

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