



**EUROPEAN COMMISSION**

Internal Market and Services DG

**FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE**  
Director

Brussels, 20.12.07 00004955  
MARKT/2007/18444

Jim Sylph  
International Auditing and  
Assurance Standards Board  
by e-mail: Edcomments@ifac.org

Dear Mr Sylph,

**Subject: Comment on the Exposure Draft of Proposed ISA 700 (Revised and Redrafted) – *the Independent Auditor's Report on General Purpose Financial Statements***

Dear Mr Sylph,

1. We appreciate the opportunity to comment on the IAASB proposal for a redrafted International Standard on Auditing on the content of an auditor's report.
2. Our approach acknowledges that ISAs should foster comparability and consistency of auditor's reports in the global marketplace. Nevertheless, there is a need to accommodate a variety of legal environments when it comes to statutory audits. Finally we say a few words on the way this ED addresses the ongoing revision of IAS 1 by the IASB.

**Comparability and consistency of the auditor's reports in the global marketplace**

3. We support the purpose of ISA 700 in seeking to foster consistency of the auditor's report on global capital markets. This is important in the EU as it is elsewhere in the world as investors in Europe rely on audit reports from non-EU auditors of non-EU companies the securities of which are listed on EU markets. If the EU introduces ISA for European auditors, investors will ask for consistency between such audit reports and audit reports prepared in other jurisdictions in the world. However we believe there are limitations to the extent that audit reports can be standardised at this time given the differences in legal requirements that currently exist.
4. Given the differences in legal requirements that currently exist we support that paragraph 42 calls for the application of paragraph 40 (b) not only in the case of additional national regulation, but also in the case of regional legislation, to recognise that legislation may be e.g. adopted at European level. The objective of comparability could indeed also be addressed under Article 28 of Directive

2006/43/EC. This provision allows the European Commission to adopt a common standard for audit reports on annual or consolidated accounts in IFRS.

### **Need to accommodate varied legal environments relating to management responsibilities**

5. Existing legal requirements relating to management's responsibilities are especially important. ISA 700 pursues a global approach when dealing with management's responsibilities for financial statements. As for this particular point, it seems difficult at this stage to take such a line. Management and those charged with governance face de facto different responsibilities depending on the size, geographical location, situation, legal form, etc. of the company. This is all the more relevant for the responsibilities towards a company's internal control which vary widely from one jurisdiction to another.
6. There are in particular differences in the statement of management responsibilities in the auditor's report (para 21 to 23), and also on responsibility on other information (para. 43 and 44 plus A49), and on other aspects when we compare ISA 700 to Article 51a of the 4<sup>th</sup> company law Directive.
7. We therefore have reservations on extant paragraphs 21, 22, 23 of the Exposure Draft of ISA 700, but final comments depend on the ongoing revision of ISA 580.
8. We are aware that IAASB is currently deliberating management responsibilities, as part of the ongoing revision of ISA 580, (which may entail conforming amendments to ISA 200, ISA 210 and ISA 700). This may impact paragraph 40 (b) (iv). Our preference however is to delete paragraph 40 (b) (iv). Article 4(1)(c) of the EC Transparency Directive<sup>1</sup> requires listed companies to include statements of management responsibilities within the Annual Report. Repeating these in the audit report will cause an unnecessary duplication and risks of inconsistencies. The ongoing revision may also impact the balance of extant ISA 700 reached in stating management's responsibilities versus auditor's responsibilities, and we invite the IAASB to also consider this aspect as part of this exercise.

### **Consistency of auditing standards**

9. The current construct of paragraph 40 seems to encourage the auditor to perform an audit under national standards in the first instance and seek in a second step compliance with both national standards and ISAs in a non ISA type report. However, it is suggested that ISA 700 should clarify that ISAs type reports prevail against national requirements in paragraph 40. When the auditor has conducted an audit in accordance with ISAs, and wants to report compliance with both ISAs and national standards, the auditor may do so when (i) he has performed an ISA audit, (ii) the conditions of para. 40(a) are met, and (iii) the auditor prepares a report in accordance with para 18-31, or alternatively 40(b) if the law mandates the auditor's report wording (situation of para. 42).

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<sup>1</sup> Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC

## Way ISA 700 addresses the ongoing revision of IAS 1 by the IASB

10. We observe in this Exposure Draft that a number of paragraphs have been added with a view to accommodate the current revision undertaken by the IASB on IAS 1 regarding the Financial Reporting Frameworks Described by Reference to IFRS. The IAASB proposes to require the auditor in ISA 700 to evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. As a consequence, the auditor's report on companies preparing accounts in accordance with "IFRS as adopted in the EU" would be qualified unless the company has also reconciled its financial statements to full IFRS. More importantly, this might affect unlisted companies in the future should they prepare accounts in accordance with IFRS for SMES though this project is not supported at European level. Accordingly, we support the removal of paragraphs A9, A10, A11, A33, A34 and footnotes 3 and 4, except for the items imported from IAPS 1014 (dual reporting, etc.). Our position builds upon the assumption that ISAs should remain "accounting framework neutral". In this frame, paragraph 33 of the requirements should also be amended so as to not refer to IFRS in particular, but to any applicable accounting framework instead.

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11. I would like to emphasise that this comment letter cannot pre-empt any future official position of the European Commission. In particular, our position on the above ISA, and the objectives therein, may be modified depending on the outcome of the future revision of other ISA's in the frame of the Clarity Project.
12. The comments in this letter have taken account of the views expressed within the European Group of Auditors' Oversight Bodies (EGAOB), and/or within the 'ISA Sub-group' of the EGAOB. The ISA Sub-group is comprised of participants from European organisations including audit regulators, standard setters on auditing, professional bodies, and companies. Those comments may not necessarily reflect in all circumstances unanimous views of the members of the EGAOB and/or of the participants to the EGAOB ISA Sub-group.

Yours sincerely,

  
Pierre Delsaux

Cc: Jürgen Tiedje, European Commission, Members of the EGAOB.

## GENERAL COMMENTS

### *Scope of information in the audit report required by ISA 700*

1. Para. 20(d) requires a reference in the auditor's report to "the summary of significant accounting policies and other explanatory notes". This is unclear. The IAASB should consider reviewing whether this paragraph complies with the Clarity redrafting conventions.
2. A27 is an issue because ISAs should not give interpretation of requirements set by national law. A27 should state: "*the auditor shall nevertheless evaluate ... as required in ISAs*" instead of "*the responsibility(...)] is the same*".

### *Consistency and extent of Application material*

3. We concur with the inclusion of material from IAPS 1014 in the body of this ISA.

## REQUEST FOR SPECIFIC COMMENTS

### *Is the Objective of the auditor appropriate?*

4. Our final position on the objective may depend on the outcome of the ongoing revision of ISA 200. We have no further comments at this stage.

### *Identification of requirements*

5. We invite the IAASB to ensure consistency of paragraphs 5 and 8 to 12 with ISA 200 once the latter is finalised.
6. Footnotes should in our opinion contain no material other than references and the like. Footnote n°2 should be moved towards the Application Material.
7. We do not concur with the idea in paragraph 10(a) that management may have "significant interpretations [...] of regulatory or legal requirements". This is a clear message that private persons are authorised to interpret the law. The IAASB should redraft this so as to leave no room to ambiguity with regards to the strict application of laws and regulation. Alternatively, the IAASB may consider deleting the first sentence of 10(a). In addition, we support moving the second sentence of paragraph 10(a) towards the application material.
8. Paragraph 8 should show more clearly that the opinion of the auditor is the result of his conclusion whether reasonable assurance has been obtained. This does not appear clearly due to the construct of the sentence which starts with "*In forming...*" and uses three times the word "*whether*". We invite the IAASB to redraft the whole paragraph in order to make it clearer.
9. Paragraph 14 refers to financial statements "as a whole". It is unclear why this expression is used in this paragraph whereas it does not appear in other places.