

30 November 2007

Jim Sylph
International Auditing and Assurance Standards
Board
545 5th Avenue, 14th Floor
New York, New York 10017
USA
Edcomments@ifac.org

Tower 42
25 Old Broad Street
London EC2N 1HQ
United Kingdom
t + 44 (0) 20 7382 1770
f + 44 (0) 20 7382 1771
www.c-eps.org

Dear Mr Sylph

Proposed International Standard on Auditing 700 the Independent Auditor's Report on General Purpose Financial Statements(Redrafted)

The Committee of European Banking Supervisors welcomes the opportunity to comment on the Proposed International Standard on Auditing 700 the Independent Auditor's Report on General Purpose Financial Statements (Redrafted) (ED)

Through their opinions on annual accounts and annual reports, external auditors constitute an integral part of the public oversight model and contribute to the financial stability of the market. As banking supervisors we therefore have an interest in ensuring that auditing standards, which are the basis for audit work, are of a high quality and are clear and capable of consistent application.

We appreciate the efforts of the International Auditing and Assurance Standards Board (IAASB) to clarify the auditing standard. We have no general concerns about the clarification of the ED. However we do have concerns about the proposal to incorporate application material on how the auditor should apply financial reporting requirements that are not part of the local financial reporting framework against which the auditor is reporting. These concerns are being raised irrespective of CEBS's view on the proposed changes the IASB is proposing to make in IAS 1 on 'Compliance with IFRSs'.

We provide more detail on this point, and other comments in response to the questions posed by the IAASB, in the attached appendix.

Our comments were coordinated by our Expert Group on Financial Information (EGFI), and especially by its Subgroup on Auditing, which is under the direction of Pat Sucher from the FSA, UK.

If you have any questions regarding our comments, please feel free to contact the chairman of EGFI, Arnoud Vossen (+31.20.524.3903) or Miss Pat Sucher (+44.20.7066.5644).

Yours sincerely



Daniele Nouy, Chair

Appendix

Comments on Auditing 700 the Independent Auditor's Report on General Purpose Financial Statements (Redrafted) (ED)

1. Is it appropriate to limit the scope of proposed ISA 450 (Revised and Redrafted) to the evaluation of the effect of uncorrected misstatements while ISA 700 deals with the evaluation whether the financial statements as a whole are free from material misstatement?

This seems an appropriate division of requirements as ISA 450 deals with the individual build up of uncorrected misstatements, while ISA 700 deals with the 'stand back' and overall assessment whether the financial statements as a whole are free from material misstatement.

2. Is the proposed guidance in paragraphs A9-A11 and A33-A34 of proposed ISA 700 (redrafted) which has been incorporated to address the matter of financial reporting frameworks described by reference to IFRSs appropriate?

The proposed amendments to ISA 700 are closely linked to the changes the IASB is proposing to make in IAS 1 regarding 'Compliance with IFRSs' – by way of the ED of proposed Improvements to IFRS. CEBS does not intend to comment on those changes as they are considered to be closely linked to the EU endorsement process for IFRS standards. Without prejudice to any comments that may be provided at EU level on this subject CEBS would like to raise the following technical comments with regard to the proposed changes to ISA 700.

A9 - A11 of the ED follow from paragraph 12 of the requirements where the auditor has to evaluate whether the financial statements, adequately refer to or describe the applicable financial reporting. We have the following concerns in relation to this guidance.

(a) Auditors are usually required to provide an opinion on an entity's compliance with the applicable FRF. They are not required to report against any other FRF outside the engagement.

The latter part of A9 (and paragraph A11) provides guidance on how the auditor should evaluate the description of the local FRF against which they are providing an opinion. These paragraphs provide guidance which suggests the auditor should undertake an evaluation that compares the local FRF with an external FRF, and report accordingly, even when there are no such reporting requirements about describing differences with an external FRF in the local FRF, and the financial statements do not in fact disclose such information. We are concerned that this new requirement is a departure from what is traditionally expected from an auditor. As such this requirement could be seen as a rather important modification of the concept of an audit, and there could be severe practical difficulties in its application. We would therefore have severe reservations about any such guidance.

(b) Part of A9 makes specific reference to a specific financial reporting framework (IFRS) and does not seem appropriate in ISAs which are supposed to be financial reporting framework neutral.

3. Is the proposal to incorporate the guidance from IAPS 1014, appropriately amended, in paragraphs A4-A8 and A31-A32, and to withdraw that IAPS 1014, appropriate?

This seems appropriate.

4. Are the objectives to be achieved by the auditor, stated in the proposed ISA, appropriate?

These seem appropriate.

5. Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and the use of professional judgement by auditors?

As far as we can see, the criteria have been applied appropriately and consistently.