

November 30, 2007

Mr. James Sylph  
Executive Director, IAASB  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, NY 10017

**Re: Exposure Draft: *Proposed Redrafted International Standard on Auditing (ISA) 706 (Revised), “Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor’s Report”***

Dear Mr. Sylph:

The American Institute of Certified Public Accountants (AICPA) is pleased to have the opportunity to comment on the above referenced exposure draft.

We would like to commend the International Auditing and Assurance Standards Board (IAASB) on the issuance of this exposure draft. We believe that the exposure draft clarifies the auditor’s responsibilities and we support its issuance. We believe the objective to be achieved by the auditor and the related requirements are appropriate.

Our detailed comments and recommendations are included in the accompanying appendix.

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If you have any questions regarding the comments in this letter, please contact Sharon Walker at +1-212-596-6026, [swalker@aicpa.org](mailto:swalker@aicpa.org).

Respectfully submitted,

/s/ Harold L. Monk, Jr.  
Chair, AICPA Auditing Standards Board

## APPENDIX – PARAGRAPH LEVEL COMMENTS

We offer the following paragraph level comments for your consideration. Suggested new language is shown in boldface; suggested deleted language is shown by strikethrough. Italicized text is used to add emphasis.

**Paragraph 1** - We recommend including guidance in paragraph 1 that advises the auditor that other ISAs require the inclusion of an emphasis of matter paragraph in certain circumstances.

### Paragraphs 3, A1 and A2

The first sentence of paragraph 3 states, “In rare circumstances, the auditor may consider a matter presented or disclosed in the financial statements to be of such importance to users’ understanding of the financial statements as a whole that it would be appropriate to draw their attention to it.” We are concerned about the use of “in rare circumstances” in this instance. Some ISAs require the auditor to include an emphasis of matter paragraph. In these circumstances, we do not believe that the inclusion of an emphasis of matter paragraph would be rare. Further, with the inclusion of the last sentence of paragraph 3, we believe the phrase “in rare circumstances” is redundant.

We recommend redrafting paragraph 3 as follows:

~~In rare circumstances, the auditor may consider a~~ matter presented or disclosed in the financial statements ~~to be~~ **may** be of such importance to users’ understanding of the financial statements as a whole that it ~~would be~~ **is** appropriate to draw their attention to it. An emphasis of matter paragraph in the auditors report provides a means for the auditor to do so. However, a widespread use of Emphasis of Matter paragraphs diminishes the effectiveness of the auditor’s communication of such matters.

Paragraph A1 begins with “Circumstances where the auditor *may consider it appropriate or necessary* to emphasize in the auditor’s report a matter presented or disclosed in the financial statements include, for example...” In the examples provided, other ISAs *require* that the auditor include an emphasis of matter paragraph. We recommend revising the lead in to paragraphs A1 and A2 as follows:

A1. ~~Circumstances where the auditor may consider it appropriate or necessary to emphasize in the auditor’s report a matter presented or disclosed in the financial statements include,~~ **Certain ISAs require the auditor to include an emphasis of matter paragraph**, for example:...

A2. Examples of other circumstances where, **in rare circumstances**, the auditor may ~~determine that an Emphasis of Matter paragraph~~ **consider it** appropriate **to include an emphasis of matter paragraph include**:...

**Paragraph 6** - The objective is very long and detailed. In addition, it does not include the notion that in certain circumstances an emphasis of matter paragraph is required. We recommend that the objective be redrafted as follows:

The objective of the auditor is to include clear additional communication in the auditor's report when, **such communication is required or** in the auditor's judgment, such communication ~~appropriate to draw users' attention to a matter presented or disclosed in the financial statements or to any other matter which~~ may be relevant to ~~their~~ the users understanding to the financial statements or the audit.

**Paragraph A6** – As indicated in our comment letter on proposed (Redrafted) ISA 700, “The Independent Auditor’s Report on General Purpose Financial Statements,” we are concerned that inclusion of other matters paragraphs in proposed ISA 700 and in proposed ISA 706 is confusing and in our view, not consistent with the objectives of the clarity project. It is not clear how the *other matters* that are required by law or regulation differ from those in proposed ISA 706. We believe that addressing all *Other Matters* in one ISA is most appropriate and we believe that ISA 706 is the best place to do so.

**Paragraph A8** – Paragraph A8 deals with what an others matters paragraph is rather than its placement. Accordingly, we recommend referencing paragraph A8 to paragraph 4.

**Paragraph A9** – The guidance in the last sentence of paragraph A9 suggests that when an Other Matters paragraph recurs the communication with those charged with governance required by paragraph 10 may not be necessary. We believe that such a communication is always necessary. Paragraph 5 of extant ISA 210, *Terms of Audit Engagements*, as amended by ISA 700 states that “the engagement letter documents and confirms the auditor’s acceptance of the appointment, the objective and scope of the audit, the extent of the auditor’s responsibilities to the client and the form of any reports.” Accordingly, we recommend deleting the last sentence in paragraph A9.