



April 22, 2015

Ms. Kathleen Healy
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue – 14th Floor
New York, NY 10017
U.S.A.

Dear Ms. Healy,

Re: Exposure Draft, ISA 800 (Revised), Special Considerations–Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks and ISA 805 (Revised), Special Considerations–Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

The Canadian Auditing and Assurance Standards Board (AASB) is pleased to provide its comments on the Exposure Draft (ED), *ISA 800 (Revised), Special Considerations–Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks and ISA 805 (Revised), Special Considerations–Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*. In developing our response, we considered comments provided to us by interested parties in Canada.

Overall Comments

The AASB supports the IAASB's efforts to reflect changes resulting from the new and revised Auditor Reporting standards in ISAs 800 and 805.

The AASB agrees, as a matter of principle, that the new and revised Auditor Reporting standards should be extended to ISAs 800 and 805 when appropriate.

However we have the following key concerns with the proposed reporting requirements in an ISA 805 engagement when a Key Audit Matters (KAM) section and a Material Uncertainty (MU) Related to Going Concern (GC) section are included in the auditor's report on an entity's complete set of financial statements:

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- a) We believe that the proposed application material in paragraph A23 that permits the auditor to reference in the ISA 805 auditor’s report the KAM in the auditor’s report on the complete set of financial statements, will be difficult to implement by auditors on a consistent basis and the resulting auditor’s reports may be misinterpreted by intended users. In order to prevent misinterpretation by the intended users, the ISA 805’s auditor’s report should stand on its own. If the auditor believes that there should be communication of KAM in the ISA 805 auditor’s report this should be done without reference to the KAM section in the auditor’s report on the complete set of financial statements and paragraph A23 should be deleted. We agree with paragraph A19 and that ISA 701 should be applied in its entirety to the ISA 805 engagement when the auditor decides to do so.
- b) We believe that the proposed requirement in paragraph 15 to include in the ISA 805 auditor’s report the “MU Related to GC” section from the auditor’s report on the complete set of financial statements is inconsistent with the underlying principle in paragraph 2 of ISA 570 (Revised). The implication of this principle is that the auditor needs to determine whether the going concern basis of accounting is relevant to the type of financial reporting framework used. Paragraph 2 of ISA 570 (Revised) indicates that the going concern basis of accounting is always relevant when a general purpose financial reporting framework is used, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. However, the going concern basis of accounting may or may not be relevant for some special purpose financial reporting frameworks. It is our view that whether the going concern basis of accounting is relevant to the ISA 805 engagement is a matter of professional judgment based on the nature of the special purpose financial reporting framework used. Because of this, we believe that the auditor should not be required in every case to include the “MU Related to GC” section of the auditor’s report on the complete set of financial statements in the ISA 805 auditor’s report. To appropriately reflect the principle in paragraph 2 of ISA 570 (Revised) in ISA 805, we believe that proposed paragraph 15 needs to be amended to allow the auditor to use professional judgment to deem whether it is appropriate to include the “MU Related to GC” section in the auditor’s report of an ISA 805 engagement.

Request for Specific Comments

Our responses to the matters on which you specifically requested comments are set out below.

- Q1. Whether respondents agree with how the enhancements resulting from the new and revised Auditor Reporting standards have been addressed in proposed ISA 800 (Revised) and proposed ISA 805 (Revised) as explained in paragraphs 10–32 of this EM. If not, respondents are requested to provide their rationale as to why they do not support the proposals and, where applicable, suggest alternative approaches.**

These are the enhancements that we agree with:

- a) ISA 701 applies only when law or regulation requires communication of KAM or when the auditor decides to communicate KAM on a voluntary basis.
- b) Inclusion of the term “Emphasis of Matter” for an ISA 800 auditor’s report to alert users that the financial statements are prepared in accordance with a special purpose framework and may not be suitable for another purpose.
- c) Explicit statement in all auditor’s reports that the auditor is independent of the entity and has fulfilled the auditor’s other ethical responsibilities.
- d) Opinion section to be presented first, followed by Basis of Opinion section for all auditor’s reports.
- e) Improved description of the responsibilities of the auditor for all auditor’s reports.
- f) New descriptions of the respective responsibilities of management and the auditor for GC in all auditor’s reports if the GC basis of accounting is relevant.

These are the enhancements that we do not support:

- a) The requirement in paragraph 15 to repeat the “MU Related to GC” section in an ISA 805 auditor’s report if included in the auditor’s report on the complete set of financial statements because:
 - i. We disagree with paragraph A24 which states that matters related to GC are deemed always relevant to the users understanding of the financial statement or the specific element or the related auditor’s report. Matters related to GC are always relevant in a general purpose financial reporting framework. However matters related to GC in a special purpose financial reporting framework may or may not be relevant. For example, in Canada, a significant number of CAS 805 engagements involve the audit of a schedule of common operating expenses that a landlord would prepare in accordance with the terms of a lease agreement for purposes of sharing the costs of operating the leased premises among tenants. Even if there is a MU related to the GC in the auditor’s report on the financial statements of the landlord, the going concern basis of accounting is not relevant to the schedule of common operating expenses. We recommend that paragraph A24 be deleted and a new paragraph A18a under the “Going Concern” heading be added as follows:

“When a single financial statement or a specific element of a financial statement is prepared in accordance with a general purpose financial reporting framework, the going concern basis of accounting is always relevant. Therefore ISA 570 (Revised) is applicable and the requirements in paragraphs 33(b) and 38(b)(iv) of ISA 700 (Revised) to describe in the auditor’s report the respective responsibilities of management and the auditor relating to going concern apply.”

ii. We recommend that paragraph 15 be worded as follows:

“If the auditor’s report on an entity’s complete set of financial statements includes a “Material Uncertainty Related to Going Concern” section that highlights the existence of a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern, or a statement that describes an uncorrected material misstatement of the other information, is included in the auditor’s report on the entity’s complete set of financial statements, the auditor shall determine the effect that this may have on the auditor’s report on a single financial statement or on a specific element of those financial statements. When deemed appropriate, the auditor shall include the “Material Uncertainty Related to Going Concern” section or the statement that describes an uncorrected material misstatement of the other information in the auditor’s report on the single financial statement or on the specific element of a financial statement, accordingly. (Ref: Para. A18-A18a)”

If the IAASB decides to proceed with the proposal to require the “MU Related to GC” section from the auditor’s report on the complete set of financial statements in the ISA 805 auditor’s report, then the IAASB should consider that this requirement is inconsistent with paragraph A18. Paragraph A18 states that if the GC basis of accounting is not relevant to an ISA 805 engagement, then the requirements of ISA 700 (Revised) paragraphs 33 (b) and 38 (b) (iv) (description of management’s and auditor’s responsibilities relating to GC) and the requirements of ISA 570 (Revised) (auditor’s report disclosures of GC) do not apply. It is not clear whether paragraph 15 overrides paragraph A18 and whether or not the ISA 805 auditor’s report needs to refer to the auditor’s and management’s responsibilities when the report includes the “MU Related to GC” section from the auditor’s report on the complete set of financial statements. Further, it is not clear whether a consequence of paragraph 15 is that the auditor is required to comply with all the requirements of ISA 570 (Revised). Without clarification of these matters, there is a risk that intended users may be confused as to how to interpret the relevance of this section to the understanding of an ISA 805 engagement.

b) Paragraph A18 of proposed ISA 800 (Revised) and paragraph A21 of proposed ISA 805 (Revised) which state that the auditor is required to include the name of the engagement partner in the auditor’s report on special purpose financial statements, on a single financial statement or a specific element of a financial statement of a listed entity. We recognize that there is an element of consistency with ISA 700. However, the public interest benefit of doing so is not clear. In particular, it is not clear why it is important to disclose the engagement partner name in the ISA 805 auditor’s report particularly when the purpose of the engagement and the intended users of the auditor’s report may be significantly different from the users of the auditor’s report on the complete set of financial statements. Also, the naming of the engagement partner in the ISA 800 and ISA 805 auditor’s reports would not affect the engagement partner’s accountability or the conduct of the audits.

Q2. Whether the proposed standards include sufficient guidance to enable auditors to appropriately apply the new and revised Auditor Reporting standards in the context of ISA 800 and ISA 805 engagements.

The guidance is sufficient to enable auditors to appropriately apply the standards, except for the situation where the auditor of the complete set of financial statements is different from the auditor of an ISA 805 engagement. Paragraph A23 does not address this situation and therefore the auditor of the ISA 805 engagement may not have sufficient information to determine the significance of whether to communicate KAM or not.

Q3. In relation to KAM:

(a) Do respondents agree with the IAASB’s decision that the communication of KAM be voluntary for all entities under both proposed ISA 800 (Revised) and proposed ISA 805 (Revised), unless required by law or regulation?

Yes, we agree that KAM should be voluntary for all entities under both proposed revised standards, unless required by law or regulation.

(b) Specific to proposed ISA 805 (Revised), whether respondents support the IAASB’s proposed direction that reference to KAM that is communicated in the auditor’s report on the complete set of financial statements be permitted in the ISA 805 auditor’s report using an OM paragraph and how this has been illustrated in the ISA (see paragraphs 25–32 above).

We do not support the proposal to permit reference to KAM in the auditor’s report on the complete set of financial statements using the OM paragraph in the ISA 805 auditor’s report. By referring in the ISA auditor’s report to KAM in the auditor’s report on the complete set of financial statements intended users will be expected to interpret the implications of these KAM to the ISA 805 audit without understanding what KAM are or the relevance of KAM in the auditor’s report on the complete set of financial statements to the ISA 805 audit. We believe that this will result in significant confusion and misunderstanding. Therefore we recommend that ISA 701 should be applied in its entirety, when the auditor decides to do so (or is required by law or regulation) i.e. the KAM paragraph should be based on those KAM that were of the most significance in the ISA 805 engagement. We believe that paragraph A23 (and the reference to that paragraph in paragraph A19) be deleted.

If the IAASB decides to proceed with the proposal to permit reference in the ISA 805 auditor’s report to KAM in the auditor’s report of the complete set of financial statements, then we recommend that such reference be required to be limited to a cross reference in the manner of Illustration 3 in Appendix 2. This approach would have the least amount of unintended consequences resulting from our concerns described above.

In particular, the IAASB would also welcome respondents' views about:

- (i) **The usefulness of the guidance in paragraph A23 in proposed ISA 805 (Revised) and the appropriateness of Illustration 3 in Appendix 2 to assist auditors in determining how to make a reference in the ISA 805 auditor's report to KAM that are communicated in the auditor's report on the complete set of financial statements; and**

Based on our recommendation above, paragraph A23 would be removed along with the last sentence in paragraph A19.

If the IAASB decides to proceed with the proposal to reference in the ISA 805 auditor's report to KAM in the auditor's report of the complete set of financial statements, then the guidance in paragraph A23 needs to be expanded. For example, the guidance should explain what the auditor may do if there are restrictions in the availability of the complete set of financial statements that would affect the ability of the intended users to access the auditor's report thereon.

- (ii) **In light of views on (i) and the Board's deliberations summarized in paragraphs 25–32 above, whether it is necessary to establish requirements in proposed ISA 805 (Revised) relating to a reference to KAM in the ISA 805 auditor's report either to promote consistent relevant KAM in the auditor's report on the complete set of financial statements or the possibility of repeating the full description of a KAM).**

Based on our recommendation above, there should not be an OM paragraph referring to the KAM in the auditor's report of the complete set of financial statements.

If the IAASB decides to proceed with the proposal to reference in the ISA 805 auditor's report to KAM in the auditor's report of the complete set of financial statements, then we recommend that there should be requirements to promote communication of only a cross-reference to the auditor's report on the complete set of financial statements in the manner presented in Illustration 3 of Appendix 2.

Q4. The IAASB would also welcome feedback on whether conforming amendments to extant ISA 810 are needed at this time and, if so, what approach could be taken to incorporate the enhancements resulting from the new and revised Auditor Reporting standards.

The extant ISA 810 includes requirements for modifications to the auditor's report using EOM for GC and OM for ISA 720 uncorrected material misstatements. Since ISA 570 (Revised) requires a separate paragraph for "MU relating to GC" and ISA 720 (Revised) requires an OI paragraph for uncorrected material misstatements, extant ISA 810 should have limited conforming amendments to replace the existing EOM and OM paragraphs to conform to these ISA 570 (Revised) and ISA 720 (Revised) amendments respectively. These limited conforming amendments would be very relevant to users of the report and should be addressed by way of an exposure draft. The exposure draft period does not have to be long because the fundamental concepts of extant ISA 810 have not changed. The requirement for

KAM in ISA 701 and other elements required in the auditor's report (new statement about independence and ethical requirements, name of engagement partner for list entities and description of responsibilities of those charged with governance, etc), in relation to extant ISA 810 should be deferred until feedback from this ED is assessed.

Request for Comment on General Matters

Preparers (including Small- and Medium-Sized Entities (SMEs)) and Other Users

We have no comments regarding the proposed changes to the ISAs that are specific to preparers of financial statements.

Developing Nations

We have no comments on the difficulties in applying the proposed changes to the ISAs in the developing nation environment.

Translations

We have not identified any potential translation issues.

Effective Date

We agree with the IAASB's proposal to align the effective date of the proposed changes to the proposed ISA 800 (Revised) and proposed ISA 805 (Revised) with the IAASB's new and revised Auditor Reporting standards with early adoption permitted.

Other matters

None

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We hope that these comments will be useful to the IAASB in finalizing proposed changes to the ISAs re Addressing Disclosures in the Audit of Financial Statements. If you have any questions or require additional information, please contact Eric Turner at (416) 204-3240.

Yours very truly,

Cathy MacGregor

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Chair, Auditing and Assurance Standards Board (Canada)

c.c. Canadian Auditing and Assurance Standards Board members
Ron Salole