



For the attention of Ms Kathleen Healy  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14th Floor  
New York, New York, 10017  
USA

[Submitted via IAASB website]

22 April 2015

Dear Kathy

**IAASB Exposure Draft: Proposed International Standards on Auditing:**

***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***

We appreciate the opportunity to comment on the IAASB's proposed revisions to these International Standards on Auditing (ISAs).

**Overview of our key messages**

In September 2014, the IAASB took steps to reaffirm the relevance and value of the audit with the approval of the revised auditor reporting standards, which we strongly welcomed and supported. As an auditor's report issued in accordance with ISA 800 or ISA 805 follows the requirements set out in ISA 700, we understand and fully endorse the need to revise ISA 800 and ISA 805 to align with those reporting changes introduced in ISA 700 (Revised).

We support the vast majority of the proposed amendments to the two ISAs, including the principle of reordering the content of the report to include the opinion and other entity specific valuable information first. In forming our views on the proposals, we reflected on the intended users of an ISA 800 or ISA 805 report. In our experience the majority of ISA 800 and ISA 805 reports are prepared for specific intended users and for a specific purpose. It is therefore important to consider the information needs of those intended users in the context of these engagements.

With respect to ISA 800, given the nature of these engagements – reporting on a complete set of financial statements – we consider that the proposed changes represent those that are necessary to appropriately align with the requirements in the revised ISA 700 series.

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<sup>1</sup> This response is being filed on behalf of the network of member firms of PricewaterhouseCoopers International Limited and references to "PwC", "we" and "our" refer to the PwC network of member firms.



We also broadly support the proposed changes to ISA 805. However, we question whether the proposed disclosure in an ISA 805 report of the existence of Key Audit Matters (KAM) in a related ISA 700 report will necessarily be relevant to the users of those reports. Similarly, we are not convinced it is necessary in all circumstances that the ISA 805 report includes a section describing a material uncertainty relating to going concern when such a section has been included in a related ISA 700 report. We discuss these two points more fully below.

#### *Communicating Key Audit Matters in an ISA 805 engagement*

We fully support the Board's position that communication of KAM should not be mandated for listed entities when reporting on financial statements prepared in accordance with a special purpose framework (ISA 800) or on a single financial statement or specific element of a financial statement (ISA 805). There may be ISA 800, or even ISA 805 engagements, when it would be entirely appropriate to do so. But many such engagements, particularly for listed companies, will be special purpose engagements designed for specific users who will already have access to the entity's general purpose financial statements and related ISA 700 report and/or users who use the ISA 805 report for a specific purpose that may not benefit from a discussion of KAM applicable to the general purpose financial statements. As such, the disclosure of KAM may not be particularly relevant to them in those circumstances. We also agree with the Board's assessment that it would not be appropriate to selectively report KAM in an ISA 805 report i.e., repeating certain KAM from a related ISA 700 report without having applied ISA 701 in full to the separate ISA 805 engagement.

We find the proposed use of an Other Matter paragraph in the ISA 805 report, to communicate the existence of KAM in a related ISA 700 report, to be an acceptable construct as a mechanism for drawing attention to the existence of such matters. However, we remain unconvinced that users of an ISA 805 report will have a need to understand KAM that have been communicated in the auditor's report on the complete set of general purpose financial statements of the entity. An ISA 805 report relates to a separate audit engagement with a different scope and purpose and may also relate to a period that is different to that of the auditor's report on the complete set of financial statements. Therefore, the KAM that are included in any related ISA 700 report may not be related to the statement or element that is the subject matter of the ISA 805 engagement and therefore may not be relevant to the users of that report. For those reasons, we do not believe it would be useful to include in the ISA 805 report a detailed description of the KAM, or titles of those KAM, that were included in the ISA 700 report.

In the circumstances, which in our view are likely to be rare, where an auditor determined that the KAM in the ISA 700 report were of relevance to the users of the ISA 805 engagement report and their understanding of the single financial statement or specific element, we echo the view of the Board<sup>2</sup> that the most appropriate course of action would be to apply ISA 701 in its entirety on the engagement. However, in circumstances when the auditor decides it would be relevant to direct the reader's attention to the KAM in the related ISA 700 report, we recommend that the Board:

1. Restrict the proposed communication in the ISA 805 report to a basic 'signposting' Other Matter i.e., one that indicates that the auditor's report on the entity's general purpose financial statements

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<sup>2</sup> As described in paragraph 29 of the explanatory memorandum



describes KAM arising from that engagement, through inclusion of a new requirement. We have included possible wording in appendix 2; and

2. Provide examples, in application material paragraph A23, of the circumstances that the Board had in mind that would lead an auditor to consider it relevant to make this 'signposting' communication. In the absence of such guidance we believe there is insufficient information to guide auditors in making this determination.

We also suggest clarifying the consideration of when it may be appropriate to apply ISA 701 voluntarily in its entirety to an engagement and have included suggested amendments in appendix 2 to this letter.

*Describing a material uncertainty relating to going concern*

We acknowledge that drawing attention to a material uncertainty relating to the entity's ability to continue as a going concern may well be relevant and provide meaningful information for users of the ISA 805 report. However, we ask the Board to consider whether it should *always* be required to repeat the section that has been included in the auditor's report on the complete set of financial statements. As further explained in our response to question 1 in appendix 1 to this letter, in light of the applicable financial reporting framework used to prepare the single financial statement or specific element of a financial statement and the purpose for which that information has been prepared, the going concern basis may not be relevant and repetition of the material uncertainty section unnecessary.

**In conclusion**, we strongly support the need to revise ISA 800 and ISA 805 to conform to the revised ISA 700 auditor reporting requirements, approved by the Board in September 2014, and agree with the majority of the proposed changes. In addition to the comments expressed in this letter, we have set out in appendix 2 to this letter a proposed new requirement and some suggested refinements of related application material in proposed ISA 805 that, in our view, would enhance the consistency of the application of this ISA and focus the auditor on the most appropriate course of action that best meets the information needs of the user of the auditor's report on such engagements.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Diana Hillier, at [diana.hillier@uk.pwc.com](mailto:diana.hillier@uk.pwc.com) or me, at [richard.g.sexton@uk.pwc.com](mailto:richard.g.sexton@uk.pwc.com).

Yours sincerely,

A handwritten signature in blue ink that reads "Richard G. Sexton".

Richard G. Sexton  
Vice Chairman, Global Assurance



**Request for specific comments**

- 1. 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.**

As an auditor's report issued in accordance with ISA 800 or ISA 805 follows the requirements set out in ISA 700, we fully endorse the need to revise ISA 800 and ISA 805 to align with those reporting changes introduced in ISA 700 (Revised).

With the exception of the proposals on Key Audit Matters (KAM), on which we comment in question 3 below, and the following matter in relation to describing a material uncertainty relating to going concern, we support all of the proposed amendments to the two ISAs, set out in paragraph 10 of the explanatory memorandum.

Paragraph 15 of proposed ISA 805 would require, in all cases, that the auditor repeat in the ISA 805 report a section describing a material uncertainty relating to going concern that has been included in the auditor's report on the entity's complete set of general purpose financial statements. We are not convinced by the Board's rationale for removing the flexibility that exists under the extant ISA – that is, considering whether it is relevant to include in the ISA 805 report an emphasis of matter or other matter paragraph that has been included in a related ISA 700 report.

There is no fundamental underlying change in the nature of reporting of a material uncertainty in accordance with ISA 570 – it has just been moved to a more prominent section of the ISA 700 report. We, therefore, question why the construct retained in paragraph 14 of proposed ISA 805, which addresses determining whether or not it is appropriate to include in the ISA 805 report any other matter that has given rise to an emphasis of matter or other matter paragraph in the ISA 700 report, should not also continue to be applied with respect to the material uncertainty section.

Furthermore, we are concerned that there is a risk of misunderstanding in the application of paragraph 15 of proposed ISA 805, relating to the interaction with proposed ISA 800, in circumstances where a single financial statement, or specific element of a financial statement, has been prepared in accordance with a special purpose framework. Paragraph 1 of ISA 805 states that: *“The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with a general or special purpose framework. If prepared in accordance with a special purpose framework, proposed ISA 800 (Revised) also applies to the audit.”*



Paragraph A16 of proposed ISA 800 explains that there may be some special purpose financial statements prepared in accordance with a special purpose framework for which the going concern basis of accounting is not relevant, and therefore that ISA 570 (Revised) does not apply. This guidance is also repeated in paragraph A18 of proposed ISA 805. However, we are concerned that the manner in which paragraph 15 is drafted may not make sufficiently clear that the requirement to include the material uncertainty section is conditional upon this guidance. The requirement and, in particular paragraph A24, are drafted in a manner that reinforces the view, set out in the explanatory memorandum, that the information would “always be relevant” and therefore always included.

We recommend the Board align the wording of the requirement to be consistent with the position in the extant standard. We suggest this may easily be achieved by moving the “when deemed appropriate” construct to the beginning of part (b) of paragraph 15 and applying the same approach to a material uncertainty as to that of an uncorrected material misstatement of the other information. We further suggest that paragraph 18 and paragraph 24 of ISA 805 be combined to make clear the need for consideration of whether the going concern basis of accounting, and therefore ISA 570 and its associated reporting requirements, apply to the engagement.

**2. 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.**

Subject to our comments below, related to this question, and in question 3, we consider the standards to 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.

With respect to ISA 805, we acknowledge the practical challenge<sup>3</sup> that may be encountered in the auditor’s ability to voluntarily apply ISA 701 when those charged with governance do not have responsibility for overseeing the preparation of the single financial statement or specific element. We expect such circumstances to be rare. However, the Board may wish to consider whether additional guidance may be warranted to assist auditors in such situations, which could be incorporated into proposed paragraph A19.

Furthermore, with regard to paragraph 15 (b) of ISA 805, addressing the need to include the “material uncertainty related to going concern” section and, when deemed appropriate, the statement that describes an uncorrected material misstatement of other information that have been included in the related ISA 700 report, we recommend that an additional application material paragraph be incorporated to specifically address guidance on the latter of these two matters. While guidance is included with respect to the going concern section, there is no guidance on determining when it is appropriate to include the other information statement. We believe there is a risk that the other

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<sup>3</sup> As described in paragraph 24 of the explanatory memorandum



information element in paragraph 15 could be overlooked, and the inclusion of a specific application paragraph would help to alleviate this risk. We have included suggested wording in appendix 2.

We also believe that it would be helpful for one illustration in appendix 2 of ISA 805 to include, as part of the fact pattern, that the auditor has determined it appropriate to include in the ISA 805 report the statement that describes an uncorrected material misstatement of the other information that was included in the auditor's report on the entity's complete set of financial statements, and to illustrate the placement of this section in the report.

### **3. 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 not be mandated but can envisage circumstances when there are entities for which voluntary reporting of KAM may be appropriate. In those circumstances, we agree that the auditor should be required to follow ISA 701 in its entirety.

**(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). 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**
- (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 treatment in practice or expressly prohibit certain approaches (e.g., a reference only to 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).**

As explained in our covering letter, we believe it is important to assess the information needs of the users of the auditor's report on the ISA 805 engagement and to make an informed judgement as to whether to voluntarily apply ISA 701.



While we believe use of an Other Matter paragraph is an acceptable mechanism to draw attention to the existence of KAM in a related ISA 700 report, we believe this should not go beyond a basic cross-reference. We therefore support the wording in illustration 3 of appendix 2 to the ISA and have proposed wording in appendix 2 of this letter to further address this point through inclusion of a proposed requirement and refinements to the related application material. As such, we are not supportive of the alternative illustration that is shown in para 31 of the explanatory memorandum (a construct which includes the sub-heading of each of the KAM determined to be relevant).

In the circumstances where an auditor determined that the KAM in the ISA 700 report were of such relevance to the users of the ISA 805 engagement report and their understanding of the single financial statement or element thereon, that it was considered necessary to repeat details about one or more KAM, in our opinion, the most appropriate course of action would be to apply ISA 701 in its entirety on the engagement. That appropriately applies ISA 701 to the specific circumstances of the particular engagement so that the KAM reported are those relevant to that engagement and to the users of the auditor's report thereon.

We also suggest clarifying the consideration of when it may be appropriate to apply ISA 701 voluntarily in its entirety on the engagement and have included suggested amendments in Appendix 2 to this letter.

**4. 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.**

We believe it is neither necessary nor appropriate to make wholesale conforming changes to ISA 810 at this time. The ISA 810 engagement has a specific purpose – to report on the summarisation of the entity's full financial statements. It is not a separate audit engagement in the manner of ISA 800 or ISA 805. In our view, there is therefore no obvious need for an ISA 810 report to, for example, include or make reference to KAM.

We do, however, note the discussion of the Board at its March 2015 meeting and the proposals to progress a limited change to the standard to address a reporting 'gap' that has been identified relating to the new 'material uncertainty' section that may be required in an ISA 700 report. We support the need to address this issue and look forward to responding to an exposure draft of proposed changes in due course.



**Proposed new requirement and suggested amendments to application material of ISA 805**

*Changes are highlighted through use of strikethrough text or underline for proposed additional text*

***New requirement***

XX. If the auditor decides to communicate, in the auditor's report on the single financial statement, or on a specific element of a financial statement, that key audit matters have been communicated in the auditor's report on the complete set of financial statements of the entity for the period, in accordance with ISA 700, the auditor shall include an Other Matter paragraph that includes a cross-reference to that communication (Ref: Para. A23).

***Application Material***

**A19.** ISA 700 (Revised) requires the auditor to communicate key audit matters in the auditor's report in accordance with ISA 701 for audits of complete sets of general purpose financial statements of listed entities. For audits of a single financial statement or a specific element of a financial statement, ISA 701 is not applicable unless communication of key audit matters in the auditor's report on such financial statements or elements is required by law or regulation, or the auditor otherwise decides to communicate key audit matters. When key audit matters are communicated in the auditor's report on a single financial statement or a specific element of a financial statement, ISA 701 applies in its entirety. Paragraph A23 below addresses circumstances when key audit matters have been communicated in the auditor's report on a complete sets of financial statements of the entity for the period.

**A23.** The auditor may ~~consider whether it is relevant~~ decide to communicate, in the auditor's report on the single financial statement, or on a specific element of a financial statement, that key audit matters ~~are~~ have been communicated in the auditor's report on the complete set of financial statements of the entity for the period. If the auditor considers it appropriate to do so, the auditor would include an Other Matter paragraph in the auditor's report on the single financial statement, or a specific element of a financial statement, that cross-references to the existence of that a reference to that communication may be included in an Other Matter paragraph in the auditor's report on the single financial statement, or a specific element of a financial statement, in accordance with ISA 706 (Revised)-(see Illustration 3 in Appendix 2 to this ISA). As an ISA 805 engagement has a different scope and purpose to that of an audit of an entity's complete set of general purpose financial statements, inclusion of more than a cross-reference to the related ISA 700 report could be confusing as the key audit matters communicated in that other report may not be directly relevant to the single financial statement, or specific element of a financial statement, on which the auditor is reporting. In circumstances when the auditor believes that there are key audit matters relevant to the audit of the





single financial statement, or a specific element of a financial statement, in light of the information needs of the intended users and purpose of the particular engagement, it may be more appropriate to apply In addition, it may be important for the auditor to consider whether the application of ISA 701 to that engagement, in the context of the audit of the single financial statement, or a specific element of a financial statement, For example, if one or more key audit matters in the report on the complete set of financial statements may be relevant but would be described differently in the context of the ISA 805 engagement, or if the application of ISA 701 would result in the communication of additional key audit matters, the auditor may decide to apply ISA 701 in its entirety and communicate key audit matters in the auditor's report on the single financial statement, or a specific element of a financial statement. , in which case the guidance in paragraph A19 may be applied, resulting in the communication of all key audit matters relevant to this audit in a separate section of the auditor's report. [Relocated] As part of this consideration, it may be important for the auditor to consider whether there are any restrictions on 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, for example when key audit matters have been applied on a voluntary basis in connection with the audit of an entity other than a listed entity. It may also be important to consider the potential impact of any difference in the period to which the ISA 805 engagement relates in comparison to the period addressed by the auditor's report on the complete set of financial statements of the entity.

**A25.** When the auditor's report on the entity's complete set of financial statements includes a statement that describes an uncorrected material misstatement of the other information and the auditor has determined that communication about that misstatement in the auditor's report on the single financial statement or on a specific element of a financial statement is appropriate, paragraph 15 of this ISA requires that the auditor include that statement in the auditor's report. The auditor's evaluation of whether including such a statement is appropriate is a matter of professional judgement and takes into the relevance of the uncorrected misstatement of the other information that accompanied the complete set of financial statements to the users' understanding of the single financial statement or specific element of a financial statement. In circumstances when that same other information also accompanies the single financial statement or specific element of a financial statement and has been corrected in that document repeating the statement that describes the material misstatement of that other information in the ISA 805 report may be misleading.