

April 22, 2015

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by electronic submission through the IAASB website

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Dear Kathy,

**Proposed International Standards on Auditing (ISAs):**

**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,**

**Proposed Conforming Amendment to Another ISA**

We would like to thank you for the opportunity to provide the International Auditing and Assurance Standards Board (IAASB) with our comments on the Exposure Draft “Proposed International Standards on Auditing (ISAs): 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, Proposed Conforming Amendment to Another ISA” (hereinafter referred to as “the draft”).

We have provided our responses to the questions posed in the Explanatory Memorandum in Appendix 1 to this comment letter. Additional comments by paragraph or illustration are included in Appendix 2 to this comment letter.

Overall, we support the approach taken by the IAASB to provide limited application material to assist auditors in applying the new and revised Auditor Reporting

GESCHÄFTSFÜHRENDER VORSTAND:  
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WP StB, Sprecher des Vorstands;  
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standards. For reasons we describe in Appendix 1 to this comment letter, we would not support the introduction of additional, superfluous or even misleading requirements in this respect. We also believe that the approach used to deal with references, in the auditor's report to which ISA 805 applies, to KAM included in the auditor's report on the complete set of financial statements is appropriate. In Appendix 2 to this comment letter we note that there appears to be a mismatch in the report in Illustration 3 of ISA 805 between the responsibilities of management and the auditor for going concern.

Since ISA 810 may become more important in future, we recommend that the IAASB make the necessary conforming and consequential amendments to keep the standard up-to-date. Fundamental changes to ISA 810 should only be considered as part of a separate project.

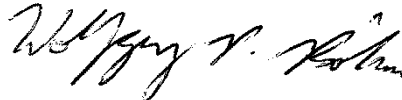
We note in Appendix 2 to this comment letter that the proposed treatment of other information in ISA 800 does not appear to be in line with ISA 720 (Revised) or with the design of ISA 800, and make some suggestions to remedy these issues.

We would be pleased to be of further assistance in these matters.

Yours truly,



Klaus-Peter Feld  
Executive Director



Wolfgang Böhm  
Director Assurance Standards,  
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## **APPENDIX 1: Responses to 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.**

Pursuant to ISA 200.18, an auditor shall comply with all ISAs relevant to the audit when the ISA is in effect and the circumstances addressed by the ISA exist. Furthermore, pursuant to ISA 200.19, an auditor is required to have an understanding of the entire text of an ISA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. The former is repeated in ISA 800.9 and in ISA 805.7. In addition, ISA 800.11 requires the application of ISA 700 (Revised) and ISA 805.10 and ISA 805.11 require the auditor to adapt all the ISAs relevant to the audit and ISA 700 (Revised), respectively, as necessary in the circumstances of the engagement.

Consequently, additional requirements in ISAs 800 or 805 with respect to the new and revised Auditor Reporting standards would not only be superfluous, but counterproductive, because they would violate the principles described above and would mislead users of ISAs 800 or 805 to believe that in some respect ISAs 800 or 805 might be self-standing, when in fact ISA 800 and ISA 805 only deal with special considerations for audits of special purpose financial statements, or audits of a single financial statement or elements of a financial statement, respectively.

For the same reasons, we believe that additional application material that does not deal with the special considerations relevant to engagements to which ISA 800 or 805 apply is superfluous. Nevertheless, we recognize that sometimes additional application material might be helpful.

On this basis, we would regard any inclusion of additional requirements in ISA 800 or ISA 805 due to the new or revised Auditor Reporting standards as inappropriate, but would accept limited application material to alert auditors to the applicability of some of the more significant changes to those standards. We believe that on the whole the IAASB's proposed additional application material has achieved this fine balance. However, we do not believe that the treatment in

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the application material in paragraph A13 of ISA 800 is in line with either ISA 720 or ISA 800. The details of our concerns are expressed in our comments by paragraph in Appendix 2 to this comment letter.

**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.**

In line with our response to Question 1 above, we believe that the proposed standards include more than sufficient guidance to enable auditors to appropriately apply the new and revised Auditor Reporting standards in the context of engagements to which ISA 800 and ISA 805 apply.

**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?**

Both engagements to which ISA 800 or ISA 805 apply, even when related to listed entities, are generally engagements in which the financial statements or elements thereof and the auditor's report are not publicly available – that is, these engagements are private engagements for certain special purposes. The parties to these engagements generally have access to additional information if required. It is therefore appropriate not to require KAM unless required by law or regulation. Furthermore, if KAM is desired, this can be provided on a contractual or voluntary basis. Even if the financial information and auditor's report is publicly available (e.g., in the public sector), this does not imply that users have sought to have the IAASB to require KAM in these circumstances. Indeed, we are not aware of parties other than some users of complete sets of general purpose financial statements of listed entities to have previously requested the IAASB to consider including KAM in the auditor's report. The approach taken by the IAASB for ISAs 800 and 805 to not require KAM would also be in line with the IAASB's decision not to require KAM for audits of complete sets of general purpose financial statements of other than listed entities. For these reasons, we agree with the IAASB's decision that the communication of KAM be voluntary for all engagements to which ISA 800 or ISA 805 apply unless required by law or regulation.

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**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 believe it would be inappropriate to include KAM communicated in the auditor's report on the complete set of financial statements (hereafter, the former auditor's report) as KAM in a KAM section of the auditor's report to which ISA 805 applies (hereafter, the latter auditor's report) without having applied the process for the determination of KAM as required by ISA 701. This approach would be inappropriate because the inclusion of KAM from the former auditor's report would mislead users of the latter auditor's report into believing that KAM has been identified as part of the engagement to which ISA 805 applies. Since KAM as defined in ISA 701 may relate to matters that are not of fundamental importance to users' understanding of the financial statements, such a reference or description in the latter auditor's report to KAM included in the former auditor's report would not meet the definition of an emphasis of matter paragraph. Furthermore, such a description of KAM may go beyond simply emphasizing a matter as permitted by emphasis of matter paragraphs. Since the reference or description in the latter auditor's report of KAM included in the former auditor's report relates to a matter disclosed in the former auditor's report, strictly speaking the reference or description would not relate directly to a matter presented or disclosed in the single financial statement or element thereof being reported on in the latter auditor's report. Consequently, such a reference or description meets the definition of an other matters paragraph. We therefore agree with the IAASB's proposed direction that such a reference to, or description of, KAM, that is communicated in the auditor's report on the complete set of financial statements, be permitted in the auditor's report to which ISA 805 applies using an other matters paragraph.

The illustration in the ISA shows only a reference to the existence of KAM in the auditor's report on the complete set of financial statements. Such an illustration, however, does not preclude an auditor from providing a fuller description of the matter as long as the matter is not described as KAM for the purposes of the engagement to which ISA 805 applies. We therefore support the illustration as a good example of how to deal with this matter.

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

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- 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**

In our view, the guidance in paragraph A23 is useful in assisting auditors in their determination of how to make a reference, in the auditor's report to which ISA 805 applies, to KAM that are communicated in the auditor's report on the complete set of financial statements. We have, however, some suggested improvements to the wording that we provide in Appendix 2 to this comment letter.

- 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 we pointed out in our response to Question 1, as a matter of principle, we do not believe that additional requirements are necessary unless there are special considerations that apply to ISA 805. The reference, in the auditor's report to which ISA 805 applies, to KAM included in the auditor's report on the complete set of financial statements may qualify as such a special consideration. However, we note that ISA 701 clarifies when an auditor's report may include a KAM section (that is, when ISA 701 is applied in its entirety), and that the definition of an emphasis of matter paragraph in ISA 706 effectively precludes the use of an emphasis of matter paragraph. For this reason, under the ISAs there is really no alternative to an other matters paragraph when seeking to make such a reference. Since this conclusion is reached based upon existing requirements in ISAs 701 and 706, there is no need for an additional requirement in ISA 805 as long as the application material in ISA 805 clarifies that ISA 701 applies when including KAM (as is done in paragraph A19) and clarifies that pursuant to ISA 706 this would need to be done in an other matters paragraph (as is done in paragraph A23). A separate requirement would therefore not only be superfluous, but would suggest that the matter is not already adequately addressed in the requirements of the ISAs.

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Furthermore, some flexibility should be provided to auditors to judge the level of detail they choose to provide in that reference. For these reasons, we believe that using application material to address this issue is the appropriate approach and would not support the inclusion of an additional requirement.

**3. 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 that the IAASB should ensure that ISA 810 continues to be aligned with the other ISAs, which implies that narrow conforming amendments (i.e., consistency of wording and concepts) would need to be made. However, this does not address the issue of whether consequential amendments might need to be made due to the changes resulting from the new and revised Auditor Reporting standards.

In particular, we note that the change from the use of emphasis of matter paragraphs to refer a material uncertainty related to going concern to the use of a going concern section for such a reference means that the current requirement in ISA 810.17 to refer to an emphasis of matter paragraph included in the auditor's report on the full set of financial statements and describe its basis and effect would no longer apply to instances when such a material uncertainty is disclosed in the financial statements. This would involve a substantive loss of information to users of the auditor's report on the summary financial statements.

Likewise, the change from the use of an other matters paragraph to refer to material inconsistencies between the financial statements and the other information that have not been corrected in the other information to the use of a separate section for other information in these circumstances means that the current requirement in ISA 810.17 to refer to an other matters paragraph included in the auditor's report on the full set of financial statements and describe its basis and effect would no longer apply to instances when such a material inconsistency exists. This may also involve a significant loss of information to users of the auditor's report on the summary financial statements.

For this reason, we strongly recommend that consequential amendments be made to ISA 810 to ensure that this loss of information resulting from the change from emphasis of matter and other matter paragraphs to separate sections is remedied. As a matter of principle, we do not believe it to be



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appropriate to use the issue of conforming or consequential amendments to ISA 810 to question the model that ISA 810 represents or to consider whether ISA 810 should be withdrawn. In our view, that is a consideration for a separate project on ISA 810.

### **Request for Comments on General matters**

a) ***Preparers (including Small- and Medium-Sized Entities (SMEs)), and Users (including Regulators)***—The IAASB invites comments on the proposed revised ISAs from preparers (particularly with respect to the practical impacts of the proposed revised ISAs), and users (particularly with respect to the reporting aspects of the proposed ISAs and whether the communicative value of the auditor's reports in accordance with proposed ISA 800 (Revised) and proposed ISA 805 (Revised) would be enhanced). Since we represent neither preparers nor users, we have not responded to this question.

b) ***Developing Nations***—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposed revised ISAs, in particular, on any foreseeable difficulties in applying it in a developing nation environment. Since we do not represent a developing nation, we have not responded to this question.

c) ***Translations***—Recognizing that many respondents may intend to translate the final ISAs for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed revised ISAs. We do not see any issues for translation, given the very limited changes made to the application material to ISAs 800 and 805.

d) ***Effective Date***— In line with the effective date of the new and revised Auditor Reporting standards, the effective date of:

- **Proposed ISA 800 (Revised) is for audits of special purpose financial statements for periods ending on or after December 15, 2016; and**



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- **Proposed ISA 805 (Revised) is for audits of single financial statements or specific elements, accounts or items for periods ending on or after December 15, 2016. In the case of audits of single financial statements or specific elements, accounts or items of a financial statement prepared as at a specific date, proposed ISA 805 (Revised) is effective for audits of such information prepared as at a date on or after December 15, 2016.**

**Early adoption of the proposed standards would be permitted.**

We agree that the effective date should be aligned with the effective date for the new and revised Auditor Reporting standards, and that early adoption be permitted. However, we note that the use of the word “prepared” as at a certain date in ISA 805 is misleading, since what matters is not the date of preparation, but the date of the single financial statement, element, account or item. Hence, in paragraph 4 of ISA 805 the words “prepared” should be deleted.

## APPENDIX 2: Comments by Paragraph or Illustration

### ISA 800

A13. As a result of the revision of ISA 720, a conforming amendment in the second sentence in this proposed paragraph states that “For the purposes of this ISA, other information may include reports prepared to meet the information needs of specific users.” There are two main issues that arise from the use of the words “prepared to meet the information needs of specific users”.

**First**, we would like to point out that this statement is not in line with the definition of “other information” in connection with the definition of “annual report” in ISA 720.12 (c) and (a), respectively, where there is no mention of such reports being “prepared to meet the information needs”, but rather, that the purpose of the reports is “to provide ... information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements.” The words “prepared to meet the information needs” is a much broader concept. **Indeed, under the broad concept of “prepared to meet the information needs”, almost any document could be construed as an “annual report” that contains other information for the purposes of ISA 800.** The concept of other information for the purposes of ISA 800 needs to be aligned with the concept underlying the definition in ISA 720, which is to provide information on the matters presented in financial statements – not on other matters. Since the matters presented in special purpose financial statements vary widely, it is important to keep the wording generic enough to cover the different matters such financial statements might present, yet properly delineate other information for the purposes of ISA 800 from information that should not be construed as being contained in an “annual report”. For these reasons, we believe that the words “prepare to meet the information needs” should be replaced with “that provide information on the matters presented in the financial statements.”

**Second**, three serious issues arise with the use of the term “specific users” in the phrase “prepared to meet the information needs of specific users”.

First, the use of the words “specific users” in the draft is unclear. If the financial statements are intended for certain specific users, then presumably the term “specific users” in relation to other information means those specific users for which the financial statements were intended – not any specific users – but

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this is unclear because the term “specific users” could refer to any group of specific users. However, this presumption leads to the second issue below.

Second, the use of the term “users” is also not aligned with the use of the term “owners (or similar stakeholders)” in the phrase in ISA 720 (a) “to provide owners (or similar stakeholders) information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements”. This definition of annual report in ISA 720 clarifies that an annual report is NOT directed towards the intended users of the financial statements (the term used in the other ISAs), but rather to owners (or similar stakeholders), who, under the ISAs outside of ISA 720, might not be the intended users or the only intended users of the financial statements.

Furthermore, ISA 720.A5 states that “an annual report is different in nature, purpose and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group”. We note that from the point of view of the ISAs, and in particular ISA 800, owners (or similar stakeholders) ARE a specific stakeholder group – that is the “specific users” as used in the definition of a special purpose financial reporting framework in ISA 800.6 (b), as opposed to a wide range of users as used in the definition of a general purpose financial reporting framework in ISA 700.7 (b). Consequently, the definition of annual report in ISA 720 together with the use of the term “specific users” vs. “wide range of users” in the definitions in ISAs 700 and 800 undermine the presumption posed in the first issue directly above that “specific users” in the draft of ISA 800.A13 refers to the intended users of the special purpose financial statements.

Third and most importantly, the use of the term “specific users” in this context **does not reflect how ISA 800 is designed**. ISA 800 does not necessarily apply to financial statements that are directed towards specific intended users. ISA 800 applies when financial statements are prepared using a special purpose financial reporting framework – regardless of whether the intended users of the financial statements are as broad as “the public” or as narrow as a single specific user. What matters is for whom the financial reporting framework was designed – not who the parties are that the preparer expects will use the financial statements. That is why ISA 800 requires the auditor’s report to alert users about the nature of the financial reporting framework and that it might not be suitable for their purposes (and includes guidance on a restriction on distribution or use only as application material for when there are, in fact, a few specifically identifiable intended users). Consequently, the reference to “specific users” alone is inappropriate in the context of the application of ISA 720 for an ISA 800 engagement. Rather, pursuant to ISA

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800.6 (b), other information in an ISA 800 engagement must relate to the specific users whose needs the special purpose financial reporting framework was designed to meet.

**Overall**, therefore, the second sentence in proposed ISA 800.A13 should read: “For the purposes of this ISA, other information as defined in ISA 720 refers to reports that provide information on the matters presented in the financial statements to specific users whose financial information needs the special financial reporting framework was designed to meet.”

- A15. The phrase “..., taking into account...” is a dangling modifier (verbal phrase). We suggest changing the words to read “and take into account...”.

#### Illustration 1

The words “dated January 1, 20X1 between ABC Company and DEF Company (“the contract”)” that were correctly deleted from the first paragraph in the opinion section need to be added at the end of the opinion in the following paragraph, since this is a part of the description of the contract referred to in the rest of the auditor’s report.

#### Illustration 3

Since these financial statements are prepared under the provisions of a regulatory requirement, it seems to us that these financial statements are unlikely to be made publicly available, even if the entity is a listed entity. For this reason, we suggest that the reference to “To the Shareholders of ABC Company” be deleted in the reference to the addressee.

### **ISA 805**

- 4. In line with our response in Appendix 1 to Question d), we note that the use of the word “prepared” as at a certain date in ISA 805 is misleading, since what matters is not the date of preparation, but the date of the single financial statement, element, account or item. Hence, in paragraph 4 of ISA 805 the words “prepared” should be deleted.
- A17. The phrase “..., taking into account...” is a dangling modifier (verbal phrase). We suggest changing the words to read “and take into account...”.
- A23. In the second last sentence, reference is made to “audit of an entity”. Since it is the financial statements, not the entity, that is being audited, we suggest that the words be changed to read “audit of the financial statements of an entity”. We also suggest that the final sentence be changed to reflect the fact

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that the application of paragraph A19 may not result in KAM; the words should therefore be changed to read: "... in paragraph A19 may be applied, which may result in the communication of key audit matters relevant to this audit...".

### Illustration 3

There appears to be a mismatch between the respective responsibilities of management and the auditor with respect to going concern in this illustration, since the illustrative report only refers to the responsibilities of the auditor in this respect, but no reference is made to the commensurate responsibilities of management. Either the responsibilities of management ought to refer to management responsibilities with respect to going concern, or the description of the auditor's responsibilities need to be adapted to reflect what an auditor can reasonably do with respect to going concern when auditing only a schedule of accounts receivable (e.g., in the situation when the auditor is not also the auditor of the complete set of general purpose financial statements).

In line with the other illustrations, the word "accompanying" should be deleted from the first sentence in the opinion section. Likewise, the word "accompanying" should be inserted prior to the term "financial information" in the second sentence (the opinion) of that section. Furthermore, to identify the schedule, the words "of accounts receivable" ought to be inserted after the word "schedule" in that sentence.

The words "of accounts receivable" should also be inserted after the word "schedule" in the description of management responsibilities in that section.