

Consequential Amendments to the ISA 800 Series – Issues and Drafting Team Recommendations

Objective of Agenda Item

The objective of this Agenda Item is to provide an update on DT-700's activities related to the development of consequential amendments to ISAs 800,¹ 805² and 810³ (the "ISA 800 Series"), and seek the Representatives' and Observers' views on the DT-700's recommendations.

I. Introduction

1. The IAASB's July 2013 Auditor Reporting Exposure Draft (ED) noted that the IAASB would need to propose changes to the "ISA 800 Series" in a separate ED with the aim of having the effective dates of all of the ISA reporting standards aligned to the extent practicable. The IAASB's current project timetable therefore includes a separate project to consider necessary revisions to the ISA 800 Series with plans to expose these amendments in 2014, and finalize them in June or September 2015.
2. The scope of the ISA 800 Series project is limited to the changes that arise from the auditor reporting project only. However, these changes are expected to be more substantial than what is routinely understood to be conforming amendments. This is because it is necessary to make decisions about the extent to which changes in the ISA 700⁴ series⁵ should apply to the different types of engagements addressed by the ISA 800 Series. Accordingly, the changes to the ISA 800 Series are being described as "consequential amendments."

II. Overview of the ISA 800 Series and IAASB Decisions to Date

A. Overview of ISA 800 Series

3. The scopes and objectives of each of the ISAs in the extant ISA 800 Series (included in the table below) are notably different. Accordingly, it is necessary to evaluate the potential changes that might be necessary for each ISA on an individual basis.

| | Scope | Objective |
|---------|--|---|
| ISA 800 | Deals with special considerations in the application of the ISAs (100-700 series) to an audit of financial statements that are prepared in accordance with a special purpose framework. | When applying ISAs in an audit of financial statements prepared in accordance with a special purpose framework, to address appropriately the special considerations that are relevant to: |

¹ ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

² ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statements*

³ ISA 810, *Engagements to Report on Summary Financial Statements*

⁴ ISA 700, *Forming an Opinion and Reporting on Financial Statements*

⁵ In this context, the ISA 700 series relates to proposed ISA 700 (Revised); ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*; ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*; and ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Auditor's Report*.

| | | |
|---------|--|--|
| | The ISA is written in the context of a complete set of financial statements prepared in accordance with a special purpose framework. | <p>(a) The acceptance of the engagement;</p> <p>(b) The planning and performance of that engagement; and</p> <p>(c) Forming an opinion and reporting on the financial statements.</p> |
| ISA 805 | Deals with special considerations in the application of the ISAs (100-700 series) to an audit of a single financial statement or of a specific element, account or item of a financial statement . If prepared in accordance with a special purpose framework, ISA 800 also applies to the audit. | <p>When applying ISAs in an audit of a single financial statement or of a specific element, account or item of a financial statement, to address appropriately the special considerations that are relevant to:</p> <p>(a) The acceptance of the engagement;</p> <p>(b) The planning and performance of that engagement; and</p> <p>(c) Forming an opinion and reporting on the single financial statement or on the specific element, account or item of a financial statement.</p> |
| ISA 810 | Deals with the auditor's responsibilities relating to an engagement to report on summary financial statements derived from financial statements audited in accordance with ISAs by that same auditor . | <p>To determine whether it is appropriate to accept the engagement to report on summary financial statements; and</p> <p>(a) If engaged to report on summary financial statements:</p> <p>(b) To form an opinion on the summary financial statements based on an evaluation of the conclusions drawn from the evidence obtained; and</p> <p>(c) To express clearly that opinion through a written report that also describes the basis for that opinion.</p> |

B. IAASB Decisions to Date

- At its June 2014, meeting, the IAASB considered the implications of the proposed changes to the ISA 700 series on the "ISA 800 Series". The IAASB affirmed that the ISAs within the 100–700 series are applicable when ISAs 800 and 805 are also being applied. Accordingly, the Board was of a view that, as a matter of principle, the proposed auditor reporting enhancements in proposed ISA 700 (Revised) should be extended to the ISA 800 Series.
- At its June 2014 meeting, the Board considered, at a high level, the nature of each engagement addressed by ISAs 800, 805 and 810, and tentatively agreed how each of the proposed auditor reporting enhancements may apply to each type of engagement, and how these enhancements could be dealt with in the respective auditor's reports. Appendix 1 to this paper includes a table for each of the standards in the ISA 800 Series that sets out the proposed auditor reporting enhancements, the IAASB's tentative decisions from its June 2014 meeting, and a summary of DT-700's recommendations.

III. Issues and DT-700 Recommendations

A. Nature of Consequential Amendments

6. As agreed by the IAASB, DT-700 has not considered fundamental changes or revisions to the ISA 800 Series and, therefore, the nature of the consequential amendments in ISAs 800, 805 and 810 are limited to:
- Reflecting the proposed auditor reporting enhancements resulting from the new and revised auditor reporting standards;
 - Revising the ordering of the requirements and application material and other explanatory to align with proposed ISA 700 (Revised); and
 - Revising the layout, including the ordering of elements within the illustrative auditor's reports in the respective appendices (for example, the Opinion section is now positioned first).

B. Audits of Special Purpose Financial Statements, Proposed ISA 800 (Revised)

7. Consistent with the approach in extant ISA 800, the reporting requirements in ISA 700 and other ISAs are not repeated in proposed ISA 800 (Revised), because the requirements in proposed ISA 700 (Revised) apply when forming an opinion or reporting on special purpose financial statements. DT-700 is, therefore, not recommending substantive changes to the requirements in extant ISA 800, but has concluded that it is necessary to align the presentation of the ISA 800 auditor's report to that of the ISA 700 auditor's report.
8. DT-700 is also recommending that new application material be included in proposed ISA 800 (Revised) to help auditors properly apply the new auditor reporting enhancements in the context of auditing special purpose financial statements. Table 1 in Appendix 1 to this paper includes an overview of the proposed enhancements relating to audits of financial statements that are prepared in accordance with a special purpose framework, the IAASB's tentative decisions at its June 2014 meeting, and a summary of DT-700's proposals with respect to ISA 800.

Matter for CAG Consideration

1. Representatives and Observers are asked to consider the matters above, including Table 1 in Appendix 1 of this paper, and share their views on DT-700's recommendation to require the proposed auditor reporting enhancements, except in the case of key audit matters (KAM), to audits of financial statements prepared in accordance with a special purpose financial statement. As noted above, KAM would not be a required element for audits of listed entities, but rather has been left as voluntary in all cases.

C. Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement, Proposed ISA 805 (Revised)

9. Paragraph 11 of extant ISA 805 explicitly states that the requirements in ISA 700 apply in forming an opinion and reporting on a single financial statement or on an element of a financial statement "adapted as necessary in the circumstances of the engagement." Similar to the proposed approach taken in ISA 800 discussed in paragraph 8 above, DT-700 is therefore not recommending substantive changes to the requirements in extant ISA 805, but concluded that it is necessary to:
- (a) Align the presentation of the ISA 805 auditor's report to that of the ISA 700 auditor's report; and

- (b) Develop new application material in proposed ISA 805 (Revised) to help auditors properly apply the new auditor reporting enhancements in the context of auditing special purpose financial statements.
10. Table 2 in the Appendix 1 to this paper includes an overview of the proposed enhancements relating to audits of financial statements that are prepared in accordance with be audits of single financial statements and specific elements, accounts or items of a single financial statement, the IAASB's tentative decisions at its June 2014 meeting, and a summary of DT-700's proposals with respect to ISA 805.

Additional Information Contained in the Auditor's Report on the Entity's Complete Set of Audited Financial Statements

11. Extant ISA 805 also includes specific requirements for auditors to consider in terms of the potential implications for the auditor's report on a single financial statement or on an element of a financial statement (ISA 805 auditor's report) when the auditor is also engaged to audit the entity's complete set of financial statements.
12. Paragraph 14 of extant ISA 805 requires that, if the auditor's report on the complete set of audited financial statements (the ISA 700 auditor's report) includes a modified opinion, an Emphasis of Matter (EOM) paragraph or an Other Matter (OM) paragraph, the auditor shall determine the effect that this may have on the ISA 805 auditor's report. When deemed appropriate, the auditor shall modify the opinion on the single financial statement or on the specific element of a financial statement, or include an EOM paragraph or OM paragraph in the ISA 805 auditor's report, accordingly.
13. DT-700 was of the view that the standard would be clearer if the requirements and related application material relating to modified opinions were dealt with separately. This is because DT-700 was of the view that there are two types of relevant information in the ISA 700 auditor's report that need to be considered by an auditor in the context of ISA 805 auditor's reports – modified opinions and additional information contained in the auditor's report.
14. In extant ISA 805, additional information contained in the ISA 700 auditor's report was limited to EOM and OM paragraphs. Under proposed ISA 700 (Revised), new elements of the ISA 700 auditor's report resulting from the auditor reporting enhancements now exist (i.e., a material uncertainty (MU) related to going concern (GC), a material misstatement in the other information (OI), and KAM). Accordingly, DT-700 is recommending that, in light of the proposed auditor reporting enhancements, that paragraph 14 of extant ISA 805 be expanded to address reporting about a MU relating to GC and material misstatements of the OI so as to retain the fundamental reporting principles in extant ISA 805, as these concepts were previously addressed by required EOM and OM paragraphs, respectively.
15. DT-700 is also recommending that new application material be included in proposed ISA 805 (Revised) to help auditors properly apply the new auditor reporting enhancements in the context of reporting on an audit of a single financial statement or a specific element of a financial statement.

Communicating KAM

16. With input from DT-701, DT-700 concluded that the ISA 805 auditor's report is not required to have KAM. However, DT-700 noted that, when the auditor has communicated KAM in the auditor's report on the complete set of general purpose financial statements, it is possible, however, that certain of the KAM may be relevant to the ISA 805 auditor's report.

17. Practical challenges may exist for the auditor reporting on the single financial statement or specific element to refer or include a sub-set of the KAM from the ISA 700 auditor's report in terms of, for example, the need to tailor the introductory language of the KAM section. DT-700 and DT-701 deliberations identified potential complexities in communicating KAM in an ISA 805 auditor's report in the circumstance when KAM had also been communicated in the ISA 700 auditor's report.
18. For an audit of a complete set of financial statements, KAM are determined using a threshold of most significance to the audit of the complete set of financial statements as a whole, taking into account the communications with those charged with governance. If KAM were to be communicated in the ISA 805 auditor's report, it would be necessary for the auditor to undertake a separate determination of KAM in the context of the auditor's report on that financial statement or element of the financial statement (ISA 805 engagement). This will likely result in matters of "most significance" that differ in the context of an ISA 805 engagement compared to those determined in the context of an engagement to audit the full set of general purpose financial statements.
19. At its June 2014 meeting, the IAASB tentatively agreed that KAM could be communicated voluntarily in the ISA 805 auditor's report. Recognizing the Board's initial view about the voluntary inclusion of any relevant KAM in an ISA 805 auditor's report, and the overall sentiment of not unduly complicating the requirements in proposed ISA 805 (Revised), DT-700 concluded, with the input of DT-701, that:
 - When the auditor has communicated KAM in the auditor's report on the complete set of financial statements, it is not necessary to require the auditor to determine the effect that such KAM may have on the single financial statement or specific element.
 - Application material could be included in proposed ISA 805 (Revised) to explain that the auditor may consider whether it may be relevant to communicate in the ISA 805 auditor's report any KAM communicated in the ISA 700 auditor's report that are also relevant to the audit of the single financial statement or specific element.

Matter for CAG Consideration

2. Representatives and Observers are asked to consider the matters above, including Table 2 in Appendix 1 of this paper, and share their views on DT-700's recommendation to require the proposed auditor reporting enhancements, except in the case of KAM, to audits of single financial statements or specific elements, accounts or items of a financial statement. As noted above, KAM would not be a required element for audits of listed entities, but rather has been left as voluntary in all cases

D. Engagements to Report on Summary Financial Statements, Proposed ISA 810 (Revised)

20. In contrast to ISAs 800 and 805, which direct auditors to the reporting requirements in proposed ISA 700 (Revised), extant ISA 810 prescribes elements to be included in the ISA 810 auditor's report. These reporting elements are symmetrical to the elements that are required in an ISA 700 auditor's report (i.e., paragraphs 21–42 of extant ISA 700), though tailored in light of the nature of an ISA 810 engagement.
21. In determining the amendments necessary to extant ISA 810, DT-700 exercised significant judgment in considering the level of detail that should be in the ISA 810 auditor's report in light of the proposed auditor reporting enhancements. Though DT-700 is of the view that it is important to preserve this symmetry between the reporting elements in ISA 810 and proposed ISA 700

(Revised), DT-700 members concluded that a proposed ISA 810 auditor's report should:

- (a) **Not** be a substitute for reading the auditor's report on the audited financial statements.
- (b) Where applicable, highlight the existence of important additional information contained in the auditor's report on the audited financial statements, such as:
 - (i) EOM or OM paragraphs;
 - (ii) A section addressing "Material Uncertainty Related to Going Concern;" or
 - (iii) A section communicating "Key Audit Matters."
- (c) Incorporate the new auditor reporting requirements, including all those that are intended to enhance transparency in the public interest (for example, the statement about independence and the disclosure of the engagement partner (EP) name for audits of financial statements of listed entities); and
- (d) Remain concise in light of the nature of the engagement (i.e., an engagement to report on the consistency of the summary financial statements with the audited financial statements).

Elements of the ISA 810 Auditor's Report

22. Table 3 in Appendix 1 to this paper includes an overview of the proposed enhancements resulting from the auditor reporting project, the IAASB's tentative decisions at its June 2014 meeting, and a summary of DT-700's recommendation. Also included, as Appendix 2, is an illustration of DT-700's proposal for a revised illustrative ISA 810 auditor's report.

Proposed Changes to Align to Proposed ISA 700 (Revised)

23. DT-700 is recommending that changes be made to extant ISA 810 to reorder and align its reporting requirements to the new requirements in proposed ISA 700 (Revised) (i.e., paragraph 14 of extant ISA 805 and paragraph 21-49 of proposed ISA 700 (Revised)). The more substantive of these changes are the for:
- (a) The "Opinion" section to be positioned first;
 - (b) The "Basis for Opinion" section to be positioned directly following the Opinion section;
 - (c) A statement about independence and ethical requirements to be included; and
 - (d) The name of the EP responsible for the auditor's report on the summary financial statements of a listed entity to be included.
24. Extant ISA 810 required an Auditor's Responsibility section in the auditor's report on the summary financial statement that states that "the auditor is responsible for expressing an opinion on the summary financial statements based on the procedures required by proposed ISA 810 (Revised)." This statement is now required to be presented in the Basis for Opinion section. Accordingly, the ISA 810 auditor's report in accordance with proposed ISA 810 (Revised) will no longer include an Auditor's Responsibility section.

Additional Information Contained in the Auditor's Report on Audited Financial Statements

25. As discussed in paragraphs 13–14 above in relation to ISA 805 auditor's reports, DT-700 was of the view that there are two types of relevant information in the ISA 700 auditor's report that may be relevant – modified opinions and additional information contained in the auditor's report. Accordingly, a similar approach is proposed to:

- Present the requirements and corresponding application material relating to modified opinions in ISA 810 in a new section under with sub-heading titled “Modifications to the Opinion in the Auditor’s Report on the Audited Financial Statements”; and
 - Expand the extant requirements in ISA 810 relating to EOM and OM paragraphs to address the new auditor reporting enhancements (for example, MU relating to GC, and KAM).
26. DT-700 has developed an approach for the illustrative reports that uses a heading titled “Additional Information Contained in the Auditor’s Report” as well as sub-headings for topics presented and, in the case of KAM, some illustrative language (see the Illustration in Appendix 2 to this paper). Other than for:
- A MU related to GC, for which a prescribed heading and specific content was determined necessary; and
 - KAM, where the title of each subheading required by proposed ISA 701 is required to be included in the ISA 810 report;
- the presentation of the matters in Appendix 2 (i.e., the titles of the headings and sub-headings and the illustrative wording) is not prescribed.

Emphasizing the Importance of Reading the ISA 700 Auditor’s Report

27. Though DT-700 was of the view that it was important to highlight additional information in the auditor’s report on the audited financial statements, DT-700 members also believed that it was important for the ISA 810 auditor’s report to emphasize the importance of reading the underlying audited financial statements and the auditor’s report thereon.
28. Accordingly, DT-700 is proposing that the ISA 810 auditor’s report include the following statement that “reading the summary financial statements and the auditor’s report thereon is not a substitute for reading the audited financial statements of the Company and the auditor’s report thereon.”

Disclosure of the Name of the EP on the Audit of the Audited Financial Statements

29. DT-700 was of the view that users of the ISA 810 auditor’s report are also interested in knowing the name of the EP on the audit of the audited financial statements of listed entities, if different from the auditor responsible for the ISA 810 auditor’s report. In making this recommendation, DT-700 considered the practical challenges of requiring both EP names to be included in the ISA 810 report, including those related to actual and perceived increased legal liability exposure in certain jurisdictions. Consideration was also given to the following facts:
- Having the name of the EP on the audit of the financial statements of listed entities in the resulting ISA 810 auditor’s report, if different, was most transparent.
 - The disclosure of the EP name is a short sentence, and thus does not make the ISA 810 auditor’s report significantly longer when two EPs are mentioned.
 - The IAASB at its June 2014 meeting expressed support for having the name of the EP included in the ISA 810 report for audits of listed entities, akin to its conclusion on the topic in proposed ISA 700 (Revised).

Appendix 2 to this paper illustrates how this might be done in practice.

Option Considered for Reporting Additional Information Contained in the Auditor’s Report on Audited Financial Statements

30. DT-700 considered an alternate way of presenting additional information contained in the

auditor's report on the audited financial statements in the auditor's report on the summary financial statements. An illustration of this alternate presentation is included in Appendix 3 to this paper. This alternate approach was put forward as a way of further abbreviating the illustrative ISA 810 auditor's report.

31. This alternate approach suggests the inclusion of a short bulleted list, rather than separate sub-sections, to highlight additional information contained in the auditor's report on the audited financial statements. Comparison of the two possible illustrations (Appendices 2 and 3 to this paper) indicate a potential advantage of this alternate approach is that it retains a more concise auditor's report on the summary financial statements. Without the use of subheadings, the illustration in Appendix 3 to this paper does not repeat the details from the respective sections in the auditor's report on the audited financial statements. Those DT-700 members who favored this option were of a view that such details may not be relevant in the context of summary financial statements.
32. Notwithstanding the merits of the approach put forth in Appendix 3 to this paper, DT-700 believes that the approach presented in Appendix 2 is preferable because it:
- Highlights further important details about the audit, and the audited financial statements, for example, by presenting the KAM sub-headings; and
 - Is more consistent with the underlying rationale of greater transparency for the significant changes that have been made to ISA 700 (Revised).

It was also noted that the alternative option if adopted would have consequential effects on its proposed revisions to the requirements in proposed ISA 810 (Revised) as well as extant ISA 810.

Matters for CAG Consideration

3. Representatives and Observers are asked to share their views about:
- (a) From their practical experience, how the auditor's report on the summary financial statements (ISA 810 auditor's report) is used in comparison to the auditor's report on the audited financial statements (ISA 700 auditor's report).
 - (b) What additional information contained in the ISA 700 auditor's report should be included in the ISA 810 auditor's report, and the level of detail that Representatives and Observers believe is necessary in relation to this information.
 - (c) DT-700's proposals in Table 3 of Appendix 1 to this paper, as shown in the illustrative ISA 810 auditor's report in Appendix 2 to this paper.

E. Other Considerations Relating to Revising the ISA 800 Series

Applicability of Proposed (Revised)⁶ to ISA 800 and 805 Engagements

32. Because the relevant ISAs of the 100–700 series are applicable in an ISA 800 or 805 engagement, the requirements and guidance relating to the auditor's work effort under proposed ISA 720 (Revised) apply when OI is included with special purpose financial statements, a single financial statement or a specific elements a financial statement. On this basis, DT-700 concluded that no changes would be needed to the requirements in ISAs 800 and 805, as the reporting on OI required by paragraph 32 of proposed ISA 700 (Revised) would apply.

⁶ Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

33. However, no explicit mention of OI is included in ISA 800 or ISA 805, nor was the ISA 800 Series addressed in proposed ISA 720 (Revised). In light of the Board's proposals to enhance auditor reporting on OI and the need for clarity as to when such enhancements apply, DT-700 is of the view that it would be helpful to:
- Clarify within the requirements in proposed ISA 720 (Revised) that when there is no OI, proposed ISA 720 (Revised) does not apply to audits of financial statements. This could then be referenced in application material within ISAs 800 and 805, respectively.
 - Update the illustrative auditor's reports to address one example each of a situation when the auditor has not identified a material misstatement of the OI, as well as when the auditor has identified a material misstatement of the OI.

Applicability of Proposed ISA 720 (Revised) to ISA 810 Engagements

34. Neither extant ISA 720 nor extant ISA 810 indicate whether summary financial statements, related summary annual reports or other forms of OI associated with the summary financial statements are captured within the definition of OI, and this is also not addressed in proposed ISA 720 (Revised). DT-700 was of a view it is important for the IAASB to first come to a view as to this question, so as to inform whether and, if so, how auditor reporting on OI may be part of an ISA 810 engagement.
35. ISA 810 explains that an auditor cannot accept an engagement to report on summary financial statements without having audited the underlying full financial statements. DT-700 concluded, with input from the ISA 720 Task Force, that summary financial statements and summary annual reports would constitute OI in the context of the audit of the full financial statements (i.e., proposed ISA 720 (Revised) and proposed ISA 700 (Revised)).
36. This means that, as part of the auditor's work effort on the full financial statements and the OI in accordance with proposed ISA 720 (Revised), the auditor would form a view as to whether there was a material misstatement in the summary financial statements or the summary annual report (OI that would be included with the summary financial statements). The ISA 700 auditor's report would describe the auditor's responsibilities for OI and identify the summary financial statements and summary annual report (as both would be OI). If applicable, the auditor would report on any material misstatement of this OI in the ISA 700 auditor's report.
37. In considering whether the ISA 810 auditor's report should make reference to OI, DT-700 is of a preliminary view that:
- In circumstances when no material misstatement is identified in the OI (either in the summary financial statements or the summary annual report), the auditor's report on the summary financial statements would not need to include information about the auditor's responsibilities with respect to OI as this would be described in detail in the ISA 700 auditor's report, which the ISA 810 auditor's report directs users to read.
 - In the case when an uncorrected material misstatement of OI has been included in the ISA 700 auditor's report, it would be important to highlight this material misstatement of the OI in the report on the summary financial statements. This approach is consistent with how OM paragraphs are dealt with in extant ISA 810.⁷

⁷ Extant ISA 810, paragraph 17

38. DT-700's initial deliberations on the various complexities and interactions of ISA 720 and ISA 810 indicate the following preliminary issues that may be useful for the ISA 720 Task Force's further consideration:

- The requirement and the corresponding application material in extant ISA 810 relating to OI in documents containing summary financial statements⁸ could be deleted, provided that it is made clear in the ISAs (preferably proposed ISA 720 (Revised)) that proposed ISA 720 (Revised) applies in the context of an engagement to report on summary financial statements.
- It is unclear as to whether proposed ISA 720 (Revised) applies when summary financial statements or summary annual reports are released by the client after the date of the auditor's report on the audited financial statements.

DT-700 and ISA 720 Task Force will further deliberate these issues taking into account any direction from the IAASB and the CAG.

Matter for CAG Consideration

4. Representatives and Observers are asked for their views on what should be communicated in an ISA 810 auditor's report with respect to other information when:
 - (a) There is no material misstatement in the OI.
 - (b) There is a material misstatement in the OI.
5. Representatives and Observers are asked to share any further comments on matters relevant to the consequential amendments to the ISA 800 Series.

Materials Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Agenda Item 5-B of the September 2014 IAASB
Agenda Material, *Proposed ISA 800 (Revised)*
(Marked from Extant)

<http://www.ifac.org/auditing-assurance/meetings/new-york-usa-7>

Agenda Item 5-C of the September 2014 IAASB
Agenda Material, *Proposed ISA 805 (Revised)*
(Marked from Extant)

<http://www.ifac.org/auditing-assurance/meetings/new-york-usa-7>

Agenda Item 5-D of the September 2014 IAASB
Agenda Material, *Proposed ISA 810 (Revised)*
(Marked from Extant)

<http://www.ifac.org/auditing-assurance/meetings/new-york-usa-7>

⁸ Extant ISA 810, paragraphs 24 and A19

Appendix 1
(Ref: Para. 5, 8, 10, 22)

Overview of Decisions and DT-700's Recommendations

A. Table 1 – Audits of Special Purpose Financial Statements – ISA 800

| Proposed Enhancements | IAASB June 2014 Decision | DT-700's Proposal |
|---|---|--|
| Opinion required first | Require | No change to the requirements in proposed ISA 800 (Revised). Proposed ISA 700 (Revised) (Agenda Item G.2), paragraph 23, apply. |
| Statement of independence and other relevant ethical responsibilities | Require | No change to the requirements in proposed ISA 800 (Revised). Proposed ISA 700 (Revised), paragraphs 28(c) and A34–A39, apply. |
| GC (Required statement when a MU Exists) | Require, when applicable | No change to the requirements in proposed ISA 800 (Revised). Proposed ISA 700 (Revised), paragraph 29, and proposed ISA 570 (Revised) (Agenda Item I.2), paragraph 22 apply. New application material in proposed ISA 800 (Revised), paragraph A14–A15. |
| KAM | Not required (unless by law or regulation), but allow for voluntary application | No change to the requirements in proposed ISA 800 (Revised). Proposed ISA 700 (Revised), paragraphs 30–31, apply. New application material in proposed ISA 800 (Revised), paragraph A16. |
| OI (i) Description of auditor's work effort with respect to OI (ii) Statement about material misstatement of the OI described in the ISA 700 auditor's report | When applicable, require both | No change to the requirements in proposed ISA 800 (Revised). Proposed ISA 700 (Revised), paragraph 32, applies. See paragraphs 32–33 of this paper. |
| Enhanced description of the auditor's responsibilities, including those related to GC (where GC is relevant to the special purpose financial statements) | Require | No change to the requirements in proposed ISA 800 (Revised). Proposed ISA 700 (Revised), paragraphs 34(b), 39(b)(iv), and A48, apply. |
| Disclosure of the name of the EP | Require for audits of special purpose financial statements of listed entities | No change to the requirements in proposed ISA 800 (Revised). Proposed ISA 700 (Revised), paragraphs 46 and A59–A61, apply. New application material in proposed ISA 800 (Revised), paragraph A18. |

B. Table 2 – Audit of a Single Financial Statement – ISA 805

| Proposed Enhancements | IAASB June 2014 Decision | DT-700's Proposal |
|---|---|---|
| Opinion required first | Require | No change to the requirements in proposed ISA 805 (Revised). Proposed ISA 700 (Revised), paragraph 23, applies. |
| Statement of independence and other relevant ethical responsibilities | Require | No change to the requirements in proposed ISA 805 (Revised). Proposed ISA 700 (Revised), paragraphs 28(c) and A34–A39 apply. |
| GC (Required statement when a MU Exists) | Require, when applicable | Proposed ISA 700 (Revised), paragraph 29, and proposed ISA 570 (Revised), paragraph 22, applies. New application material in proposed ISA 805 (Revised), paragraph 15 and A17–A18. |
| KAM | Not required (unless by law or regulation), but allow for voluntary application | No change to the requirements in proposed ISA 805 (Revised). Proposed ISA 700 (Revised), paragraphs 30–31, apply. New application material in proposed ISA 805 (Revised), paragraph A19. |
| OI (i) Description of auditor's work effort with respect to OI (ii) Statement about material misstatement of the OI described in the ISA 700 auditor's report | When applicable, require both | Proposed ISA 700 (Revised), paragraph 32, applies. See paragraph 32–33 of this paper. |
| Enhanced description of the auditor's responsibilities, including those related to GC (where GC is relevant to the single financial statement or element) | Require | No change to the requirements in proposed ISA 805 (Revised). Proposed ISA 700 (Revised), paragraphs 34(b), 39(b)(iv), and A48, apply. |
| Disclosure of the name of the EP | Require for audit of a single financial statement of listed entities | No change to the requirements in proposed ISA 805 (Revised). Proposed ISA 700 (Revised), paragraphs 46 and A59–A61, apply. New application material in proposed ISA 805 (Revised), paragraph A21. |

C. Table 3 – Engagements to Report on Summary Financial Statements

| Proposed Enhancements | IAASB June 2014 Decision | DT-700's Proposal |
|---|--|---|
| Statement that reading the auditor's report on the summary financial statements is not a substitute for reading the auditor's report on the audited financial statements | Require | New requirement in proposed ISA 810 (Revised), paragraph 14(c)(v). |
| Opinion required first | Require | New requirement in proposed ISA 810 (Revised), paragraph 14(c). |
| Statement of independence and other relevant ethical responsibilities | Require | New requirement in proposed ISA 810 (Revised), paragraph 14(d)(ii). New application material included in proposed ISA 810 (Revised), paragraph A15. |
| GC (Required statement when a MU Exists) | When applicable, require reference to ISA 700 auditor's report and an explicit statement about the MU and effect on the summary auditor's report (consistent with extant ISA 810 treatment of EOM paragraphs) | New requirement in proposed ISA 810 (Revised), paragraph 14(c)(v), for reference to the ISA 700 auditor's report and paragraph 17(a) for GC. New application material in proposed ISA 810 (Revised), paragraph A18. |
| KAM | Require a reference to the auditor's report to the ISA 700 auditor's report and indicate the KAM subheadings. | New requirement in proposed ISA 810 (Revised), paragraph 14(c)(v), for reference to the ISA 700 auditor's report and paragraph 17(c) for KAM. New application material in proposed ISA 810 (Revised), paragraph A18. |
| OI [Contained in the auditor's report on the audited financial statements] (i) Description of auditor's work effort with respect to OI (ii) Statement about material misstatement of the OI described in the ISA 700 auditor's report | For (i) when applicable, require a reference to the ISA 700 auditor's report. For (ii), when applicable, require a statement that refers to the material misstatement in the ISA 700 auditor's report (consistent with extant ISA 810 treatment of OM paragraphs) | See paragraphs 34–38 of this paper. |
| Enhanced description of auditor's responsibilities, including those related to GC (where GC is relevant to the special purpose financial statements) | N/A | N/A |
| Disclosure of the name of the EP | Require for audits of summary financial statements of listed entities | New requirements in proposed ISA 810 (Revised), paragraphs 14(f) and 17(e). New application material in proposed ISA 810 (Revised), paragraph A16. |

Appendix 2
(Ref: Para. 22, 26, 29 32)

DT-700's Recommendation for the Auditor's Report on Summary Financial Statements (ISA 810 Auditor's Report)

[The underlined text in the illustration below indicates the significant changes being proposed to the extant ISA 810 auditor's report.]

Illustration 1: An auditor's report on summary financial statements of a listed entity prepared in accordance with established criteria.

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- An unmodified (i.e., "clean") opinion is expressed on the audited financial statements.
- Established criteria for the preparation of summary financial statements exist.
- The auditor's report on the summary financial statements is dated later than the date of the auditor's report on the financial statements from which the summary financial statements are derived.
- The International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* comprises the relevant ethical requirements that apply to the engagement to report on the summary financial statements.
- The auditor's report on the audited financial statements contains a "Material Uncertainty Related to Going Concern" section that highlights the existence of a material uncertainty in accordance with proposed ISA 570 (Revised). The disclosure of the material uncertainty in the audited and summary financial statements is adequate.
- The auditor's report on the audited financial statements does not contain an Emphasis of Matter or Other Matter paragraph.
- Key audit matters have been communicated in accordance with proposed ISA 701 in the auditor's report on the audited financial statements.
- No other information has been obtained at the date of the auditor's report on the audited financial statements, or the auditor's report on the summary financial statements. [Placeholder for other information.]
- The engagement partner on the engagement to report on the summary financial statements is different from the engagement partner on the audit of the financial statements.

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

To the Shareholders of ABC Company [or Appropriate Addressee]

Opinion .[Opinion section repositioned to match presentation in proposed ISA 700 (Revised)]

The accompanying summary financial statements, which comprise the summary statement of financial position as at December 31, 20X1, the summary statement of comprehensive income, the summary statement of changes in equity and the summary statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, are derived from the audited financial statements of ABC Company (the Company) for the year ended December 31, 20X1. We expressed an unmodified audit opinion on those financial statements in our report dated February 15, 20X2. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements

In our opinion, the summary financial statements derived from the audited financial statements of the Company for the year ended December 31, 20X1 are consistent, in all material respects, with (or a fair summary of) those financial statements, in accordance with [describe established criteria].

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of the Company]. Reading the summary financial statements and this report, therefore, is not a substitute for reading the audited financial statements of the Company and the auditor's report thereon.

Basis for Opinion

We conducted our procedures in accordance with International Standard on Auditing (ISA) 810, *Engagements to Report on Summary Financial Statements*. Our responsibility is to express an opinion on the summary financial statements based on these procedures. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and have fulfilled our other ethical responsibilities in accordance with the IESBA Code. [The first and second sentences are adapted from the only sentence in the Auditor's Responsibility section of the extant ISA 810. Accordingly, the Auditor's Responsibility section is deleted.]

Responsibility of Management⁹ for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements in accordance with [describe established criteria].

Additional Information Contained in the Auditor's Report on the Audited Financial Statements

We draw attention to the existence of the following matters contained in the auditor's report on the Company's audited financial statements. As noted above, reading this report is not a substitute for reading the auditor's report on those audited financial statements.

Material Uncertainty Related to Going Concern

Our auditor's report on the audited financial statements contains a Material Uncertainty Related to Going Concern section that highlights the existence of a material uncertainty. We draw attention to Note 6 in the summary financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note 6 to the summary financial statements, these events or conditions, along with other matters as set forth in Note 6 to the summary financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion on the audited financial statements is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. The key audit matters communicated in the auditor's report on the Company's audited financial statements relate to: [list sub-headings within the Key Audit Matters section of the auditor's report on the audited financial statements].

The engagement partner on the engagement for the summary financial statements of the Company resulting in this independent auditor's report is [name]. The engagement partner on the audit resulting in the independent auditor's report on the audited financial statements is [name].

⁹ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor's address]

[Date]

Appendix 3
(Ref: Para. 30–32)

Alternate Presentation of Additional Information Contained in the Auditor's Report on Audited Financial Statements in the ISA 810 Auditor's Report

[The underlined text in this illustration below indicates the alternate presentation of the additional information contained in the auditor's report on the audited financial statements in the ISA 810 auditor's report that was considered by DT-700.]

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

To the Shareholders of ABC Company [or Appropriate Addressee]

Opinion

The accompanying summary financial statements, which comprise the summary balance sheet as at December 31, 20X1, the summary income statement, summary statement of changes in equity and summary cash flow statement for the year then ended, and notes to the financial statements, including a summary of accounting policies, are derived from the audited financial statements of ABC Company (the Company) for the year ended December 31, 20X1. We expressed an unmodified audit opinion on those financial statements in our report dated February 15, 20X2. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

In our opinion, the summary financial statements derived from the audited financial statements of the Company for the year ended December 31, 20X1 are consistent, in all material respects, with (or *a fair summary of*) those financial statements, in accordance with [*describe established criteria*].

The summary financial statements do not contain all the disclosures required by [*describe financial reporting framework applied in the preparation of the audited financial statements of the Company*]. Reading the summary financial statements and this report, therefore, is not a substitute for reading the audited financial statements of the Company and the auditor's report thereon.

Basis for Opinion

We conducted our procedures in accordance with International Standard on Auditing (ISA) 810, *Engagements to Report on Summary Financial Statements*. Our responsibility is to express an opinion on the summary financial statements based on these procedures. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) and have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibility of Management¹⁰ for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements in accordance with [*describe established criteria*].

¹⁰ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

Additional Information Contained in the Auditor's Report on the Audited Financial Statements

We draw attention to the existence of the following matters contained in the auditor's report on the Company's audited financial statements. As noted above, reading this report is not a substitute for reading the auditor's report on those audited financial statements. That auditor's report includes:

- A description of key audit matters that, in the auditor's judgment, were of most significance in the audit of those financial statements [*Inclusion of the subheadings for individual key audit matters would be **voluntary**, and not required*].
- A reference to the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.
- An emphasis of matter or other matter paragraph about [*describe basis*]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor's address]

[Date]