

Agenda Item J.4

Report Back – Auditor Reporting: ISA 810, *Engagements to Report on Summary Financial Statements*

Background

1. At its March 2015 meeting, the IAASB discussed the results of an IAASB Staff-led technical review of extant ISA 810, which addresses engagements to report on summary financial statements when the auditor has also audited the complete set of financial statements and reported in accordance with ISA 700 (Revised).¹ This review confirmed previous views discussed by the IAASB – namely that an information gap would result in circumstances when a material uncertainty related to going concern or a material misstatement of other information are highlighted in the auditor’s report on the related audited financial statements. Such matters were previously required to be addressed in an Emphasis of Matter paragraph or an Other Matter paragraph, respectively, and, in accordance with paragraph 17 of extant ISA 810, would always be required to be highlighted in the ISA 810 report. ISA 570 (Revised)² and ISA 720 (Revised)³ now require separate sections in the auditor’s report on the audited financial statements when such circumstances exist (i.e., these matters are no longer addressed using an Emphasis of Matter or Other Matter paragraph). Because extant ISA 810 does not refer to these new sections required by ISA 570 (Revised) and ISA 720 (Revised), without amendment to extant ISA 810, these newly required sections would not be required to be highlighted in the ISA 810 auditor’s report.
2. The January 2015 Exposure Draft (ED) of proposed ISA 800 (Revised)⁴ and proposed ISA 805⁵ also included a discussion of the IAASB’s plan with respect to ISA 810, as well as a question for respondents. The IAASB considered this feedback, together with the comments below from the March 2015 CAG meeting, at its June 2015 meeting, and agreed that it would be in the public interest to proposed limited amendments to ISA 810 at this time in light of the enhancements from the broader Auditor Reporting project.
3. Accordingly, the IAASB approved the ED, [*Proposed ISA 810 \(Revised\), Engagements to Report on Summary Financial Statements*](#). The ISA 810 ED was issued in August 2015 and is open for comment until November 2, 2015. **CAG Member Organizations are strongly encouraged to submit formal responses to the IAASB by this date.** It would be particularly helpful to understand respondents’ exposure to or experiences with ISA 810 in their respective jurisdictions, whether in the context as auditors, national auditing standard setters (NSS), regulators or others.
4. The IAASB plans to consider feedback on the ISA 810 ED, and the Drafting Team’s proposed revisions in response to that feedback, at its December 2015 meeting, with a view towards approving

¹ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

² ISA 570 (Revised), *Going Concern*

³ ISA 720 (Revised), *The Auditor’s Responsibilities Related to Other Information*

⁴ Proposed ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

⁵ Proposed ISA 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

the final standard at that time. A CAG teleconference is therefore planned for December 2, 2015 to finalize discussion on the topic with the CAG.

March 2015 CAG Discussion

5. Below are extracts from the draft minutes of the March 2015 CAG meeting,⁶ and an indication of how the Drafting Team (DT) or IAASB has responded to the Representatives' and Observers' comments.

Consequential Amendments to the ISA 800 Series	
Representatives' and Observers' Comments	DT/IAASB Response
ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS (PROPOSED ISA 810 (REVISED))	
<p>Mr. Fukushima noted that International Organization of Securities Commissions is of the view that the IAASB should focus its resources on improving standards for audits of general purpose financial statements. He then questioned whether there were strong needs for making changes (either of a conforming amendments nature to align to the new and revised Auditor Reporting standards, or more fundamental changes) to ISA 810, and whether there is a sufficient level of urgency to justify doing so on an accelerated basis.</p>	<p>Point taken into account.</p> <p>The changes being proposed to extant ISA 810 are intended to explain how the enhancements resulting from the new and revised Auditor Reporting standards apply to an engagement to report on summary financial statements and, accordingly, are limited and conforming in nature.</p> <p>The IAASB's view is that, consistent with the approach taken in the ISA 800/805 ED, it is not necessary to substantively change the premise of an ISA 810 engagement, but rather to make limited changes to take into account the enhancements to auditor reporting. Unless the IAASB becomes aware of significant public interest concerns with proposed ISA 810 (Revised), the IAASB will continue with the limited amendments as proposed in this ED and does not intend to initiate a more fulsome project in relation to ISA 810 in the future. The IAASB therefore issued these limited amendments with a comment period of 90 days and intends to finalize them as soon as practicable after the close of the comment period.</p> <p>The IAASB also agreed to specifically ask respondents to provide their rationale for why further changes, if any, may be needed to ISA 810 as well as views as to when the Board should develop and propose such changes in light of its other priorities.</p> <p>[See Question 2 in the EM accompanying the ISA 810 ED.]</p>

⁶ The minutes will be approved at the September 2015 IAASB CAG meeting.

Consequential Amendments to the ISA 800 Series	
Representatives' and Observers' Comments	DT/IAASB Response
<p>Ms. de Beer noted that, at a previous CAG meeting, there was a view that it would be appropriate to align extant ISA 810 to the enhancement in the new and revised Auditor Reporting standards. Mr. Thompson agreed with Ms. de Beer, noting that because there have been radical changes to the auditor's report for audits of listed entities, he would expect that there would also be changes to extant ISA 810 to, at a minimum, to refer readers to the auditor's report on the full set of audited financial statements that include the enhanced auditor reporting information, including key audit matters and material uncertainties on going concern. Mr. Thompson added that there was a public interest benefit to referring investors and other users to the auditor's report on the full set of audited financial statements, because in some cases it was the only auditor's report that they read.</p>	<p>Point accepted.</p> <p>Extant ISA 810 requires that the auditor include in the the auditor's report on the summary financial statements (referred to hereafter as "the ISA 810 report") a statement indicating that the summary financial statements do not contain all the disclosures required by the financial reporting framework applied in the preparation of the audited financial statements, and that reading the summary financial statements is not a substitute for reading the audited financial statements. This requirement has been retaining in proposed ISA 810 (Revised).</p> <p>[See paragraph 14(f) of the ISA 810 ED.]</p> <p>The IAASB considered whether this statement should be expanded to state that, "...reading the summary financial statements <u>and the auditor's report thereon</u> is not a substitute for reading the audited financial statements <u>and the auditor's report thereon.</u>" as a means of signaling and encouraging readers of the ISA 810 report to read the auditor's report on the audited financial statements.</p> <p>The IAASB concluded that requiring such a statement would not be necessary, as the approach now proposed in paragraph 17 of proposed ISA 810 (Revised) will more explicitly require the auditor to make reference to specific items included in the auditor's report on the audited financial statements, thereby achieving the same effect.</p> <p>In addition to addressing the information gap discussed in paragraph 1 of this paper, the amendment to paragraph 17 of proposed ISA 810 (Revised) also introduces a new requirement for the ISA 810 report to include a reference to the communication of key audit matters in the auditor's report on the audited financial statements (i.e., to refer to the existence of such communication without needing to describe, repeat or otherwise refer to individual key audit matters).</p>

Consequential Amendments to the ISA 800 Series	
Representatives' and Observers' Comments	DT/IAASB Response
	[See paragraphs 17, A15 and Illustration 1 of the Appendix of the ISA 810 ED.]
<p>Mr. Baumann expressed a contrary view, disagreeing not only with the recommendations in Agenda Item D-3, but also with the existence of ISA 810 more broadly. He suggested that auditors should not be reporting on summary financial statements because of a lack of a specified financial reporting framework for the preparation of such summarized financial statements. Ms. de Beer noted that Mr. Baumann had expressed this view during previous CAG meetings, noting that International Financial Reporting Standards do not specify a criteria for developing summary financial statements. To Mr. Baumann, Ms. de Beer asked whether the establishment of such a criteria by the International Accounting Standards Board (IASB) would change his views. Mr. Baumann clarified that he was not suggesting that the IASB undertake such a project, but rather that he simply did not think that it was in the public interest for auditors to be associated with information that was prepared based on criteria developed by management.</p> <p>Expressing some support for the points raised by Mr. Baumann, Mr. Hansen suggested the possibility of reaching a middle-ground by possibly requiring additional disclaimers in the auditor's report on summary financial statements. Mr. Baumann noted that he saw some merit in having a debate about such an approach.</p> <p>Mr. Stewart noted that, in his personal view, based on the CAG discussions, this area would be best dealt with by securities regulators, and that the IASB would likely have a challenge in developing such a standard because its framework is intended to focus on what is necessary for developing financial statements that provide a "true and fair view", or "fair presentation."</p>	<p>Points taken into account.</p> <p>During the meeting, Prof. Schilder acknowledged the point and noted that it had also been raised in IAASB deliberations, but that the IAASB concluded that a movement towards such a change would be a fundamental revision to extant ISA 810.</p> <p>Ms. Healy explained that ISA 810 requires auditors to determine whether the criteria for developing summary financial statements is acceptable before undertaking the engagement. She also noted that national law or regulation often provides the basis for the preparing summary financial statements. Ms. de Beer agreed.</p> <p>Extant ISA 810 notes that the criteria for the preparation of summary financial statements may be established by an authorized or recognized standards setting organization or by law or regulation. Where established criteria do not exist, criteria may be developed by management based on practice in a particular industry.⁷</p> <p>While the IAASB is not aware of any international framework or criteria for summary financial statements, the Board recognizes that accounting standard setters, securities regulators and others may set out requirements on a national basis for summary financial statements in light of the intended users of this information. The preliminary feedback obtained by the Board and its Staff to date indicates that ISA 810 is used as a starting point for a limited number of jurisdictions in which auditors are engaged to report on summary financial statements. These jurisdictions have further tailored ISA 810, and in some cases supplement it with national guidance to reflect the facts and circumstances that are relevant</p>

⁷ Paragraph 6 of extant ISA 810 and proposed ISA 810 (Revised) requires the auditor to determine whether the applied criteria are acceptable before accepting an engagement to report on summary financial statements.

Consequential Amendments to the ISA 800 Series	
Representatives' and Observers' Comments	DT/IAASB Response
	<p>within the context of the national environments where these engagements are performed.</p> <p>The IAASB therefore believes it is in the public interest to allow for flexibility in relation to auditor reporting in this area to align with those users' needs and expectations, and envisages that NSS may continue to consider it appropriate to add more detailed requirements in their national equivalents of ISA 810.</p> <p>However, the Explanatory Memorandum (EM) to proposed ISA 810 (Revised) makes reference to the view that the IAASB may need to consider ISA 810 engagements more holistically, including whether ISA 810 should be withdrawn, given the perceived lack of international criteria for such summary financial statements and the perception that it may not be appropriate for the standard to allow management, rather than an authorized or recognized standards setting organization or law or regulation, to establish the criteria for such summary financial statements.</p> <p>Notwithstanding this view, the EM also notes that the ISAs, including ISA 810, are framework-neutral: some jurisdictions have national criteria for summary financial statements. Furthermore, not permitting management to establish the criteria for financial statements or other subject matter information would not be in line with ISA 800 or ISAE 3000 (Revised),⁸ respectively. Hence, the IAASB believed that withdrawing ISA 810 for these reasons may unduly limit currently acceptable practices in some jurisdictions.</p> <p>To Mr. Hansen's point, extant ISA 810 requires the auditor's opinion in the ISA 810 report to make reference to the applied criteria as disclosed in the summary financial statements.</p>

⁸ International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

Consequential Amendments to the ISA 800 Series	
Representatives' and Observers' Comments	DT/IAASB Response
	[See paragraph 32 and Question 2 of the EM, and paragraphs 9, paragraphs 14 and A16 and Illustrations 2–4 of the ISA 810 ED.]
Mr. Greene asked about the auditor's responsibilities with respect to other information in the context of an ISA 810 engagement.	Point noted. Ms. Healy explained that it is possible for an entity's financial reporting package to include summary financial statements, as well as summary other information. ISA 810 requires auditors engaged to report on summary financial statements to consider the summary other information to ensure that there is not a material inconsistency with the summary financial statements. Ms. Healy explained further that if a set of summary financial statements is issued together with the audited financial statements, those summary financial statements are scoped into the other information that needs to be considered by auditor of the complete set of financial statements in accordance with ISA 720 (Revised).

Matters for CAG Consideration

6. The Representatives and Observers are asked to note the Report Back above.

Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Exposure Draft, *Proposed ISA 810 (Revised), Engagements for Summary Financial Statements*

<https://www.ifac.org/publications-resources/proposed-international-standard-auditing-isa-810-revised>