

April 22, 2015

Small and Medium Practices (SMP) Committee Response to the IAASB Exposure Draft Proposed International Standards on Audit: ISA 800 (Revised) *Special Consideration—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*

Introduction

The SMP Committee (SMPC) is pleased to respond to the IAASB on this Exposure Draft (ED).

The SMPC is charged with identifying and representing the needs of its constituents and, where applicable, to give consideration to relevant issues pertaining to small-and medium-sized entities (SMEs). The constituents of the SMPC are small-and medium-sized practices (SMPs) who provide accounting, assurance and business advisory services principally, but not exclusively, to clients who are SMEs. Members and Technical Advisers serving the SMPC are drawn from IFAC member bodies representing 22 countries from all regions of the world¹.

General Comments

Overall, we support the approach outlined in the ED and the proposed amendments to ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, and proposed ISA 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*. We agree with the IAASB that in principle enhancements resulting from the new and revised Auditor Reporting standards that would apply to audits of complete sets of general purpose financial statements should also apply to ISA 800 and ISA 805 engagements in order to ensure consistency of application and implementation of the standards.

We support the IAASB's decision that the communication of Key Audit Matters (KAM) should be voluntary for all entities applying proposed ISA 800 (Revised) and ISA 805 (Revised), unless required by law or regulation. However, we acknowledge that in particular jurisdictions concerns remain that voluntary reporting of KAM (both in accordance with ISA 701² and proposed ISA 800 (Revised) and ISA 805 (Revised)) might lead to confusion amongst stakeholders and perhaps increase the expectations gap. In addition, there are concerns that it may also create a competitive disadvantage for SMPs as larger audit firms are perceived to be providing a better service through communicating KAMs.

¹ Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong, India, Italy, Kenya, Malawi, Malta, Nigeria, South Africa, Spain, Sweden, Turkey, Tunisia, Uganda, United Kingdom, United States.

² ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*



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, and if not, respondents are requested to provide their rationale as to why they do not support the proposals and, where applicable, suggest alternative approaches.

We agree with the approach on how the enhancements resulting from the new and revised Auditor Reporting Standards have been addressed both in proposed ISA 800 (Revised) and proposed ISA 805 (Revised).

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 our opinion, the proposed standards generally include sufficient guidance to enable auditors to apply the new and revised Auditor Reporting standards in the context of ISA 800 and ISA 805 engagements.

3. In relation to KAM:

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

We agree with the IAASB's decision that the communication of KAM should be voluntary for all entities applying proposed ISA 800 (Revised) and ISA 805 (Revised), unless it is required by law or regulation.

(b) Specific to proposed ISA 805 (Revised), whether respondents support the IAASB's proposed direction that reference to KAM that is communicated in the auditor's report on the complete set of financial statements be permitted in the ISA 805 auditor's report using an OM paragraph and how this has been illustrated in the ISA (see paragraphs 25-32). In particular, the IAASB would also welcome respondents' views about:

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

(ii) In light of views on (i) and the Board's deliberations summarized in paragraphs 25–32, 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).



We support the 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 Other Matter (OM) paragraph.

In addition, we agree with the approach to provide flexibility to auditors to determine what may be most useful to users of the ISA 805 auditor's report and therefore do not consider it necessary for the IAASB to establish a conditional requirement addressing how auditors should refer to KAM that is communicated in a complete set of financial statements. We note that Illustration 3 in Appendix 2 only states that the complete set of audited financial statements included the communication of key audit matters. We believe that further guidance could be included in paragraph A23 on what else might be considered appropriate here. For example, the alternative that is included in paragraph 31 whereby an auditor could choose to refer only to relevant KAM that are communicated in the auditor's report on the complete set of financial statements by including the subheading to the KAM description required by ISA 701, or perhaps where the full audit report with the KAM included could be located. This level of detail could be helpful from the user's perspective.

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

In our view, it would be a sensible approach to propose changes to ISA 810, *Engagements to Report on Summary Financial Statements* at this time. We consider that this would be helpful for practitioners who are engaged to report on summary financial statements.

Comments on the General Matters

We have no additional comments on the general matters set out in the ED in relation to preparers, users, developing nations and translations.

We agree with the proposal to align the effective date of proposed ISA 800 (Revised) and proposed ISA 805 (Revised) with the new and revised Auditor Reporting standards.

Concluding Comments

We hope that the IAASB finds this letter helpful in finalizing the proposed changes to ISA 800 (Revised) and ISA 805 (Revised) to reflect the enhancements made in the new and revised Auditor Reporting standards.

Please do not hesitate to contact me should you wish to discuss matters raised in this submission.

Sincerely,

A handwritten signature in black ink, appearing to read 'Giancarlo Attolini', written over a horizontal line.

Giancarlo Attolini
Chair, SMP Committee