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April 22, 2015

Ms. Kathleen Healy  
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International Auditing and Assurance Standards Board  
529 Fifth Avenue  
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**Re: Exposure Draft – Proposed International Standard on Auditing (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”**

Dear Ms. Healy:

The American Institute of Certified Public Accountants (AICPA) is pleased to respond to the above referenced Exposure Draft regarding special purpose frameworks and single financial statements and specific elements, accounts, or items of a financial statement.

The AICPA is the world’s largest member association representing the accounting profession, with more than 400,000 members in 145 countries and a history of serving the public interest. AICPA members represent many areas of practice, including business and industry, public practice, government, education and consulting. Among other things, the AICPA sets ethical standards for the profession and U.S. auditing standards (GAAS) for private companies, nonprofit organizations, and federal, state and local governments.

This letter provides the AICPA Auditing Standards Board’s (ASB) response to the request for comments within the context of reporting by nonissuers under auditing standards generally accepted in the United States of America. The ASB is the AICPA’s senior committee for auditing, attestation, and quality control applicable to the performance and issuance of audit and attestation reports for nonissuers. Its mission is to serve the public interest by developing, updating and communicating comprehensive standards and practice guidance that enable practitioners to provide high-quality, objective audit and attestation services to nonissuers in an effective and efficient manner.

We generally agree with the proposals outlined in the table in paragraph 10 of the explanatory memorandum, however we do have concerns with respect to the proposed application of certain of the concepts as further outlined in our response.

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We offer the following comments for your consideration, in response to the specific request for comments on page 15 of the explanatory memorandum, followed by an appendix that contains additional comments and proposed editorial changes to specific paragraphs of the proposed ISAs.

## **Issues for Consideration**

### **IAASB Request 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.*

We have organized our comments to IAASB Request 1 based on the chart in paragraph 10.

#### *Key Audit Matters*

##### Proposed ISA 800 (paragraph A17)

We agree with the approach described in the explanatory memorandum that ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* would not be applicable for audits of special purpose frameworks (ISA 800 engagement), unless communication of key audit matters (KAM) in the auditor's report on the special purpose framework (ISA 800 auditor's report) is required by law or regulation or the auditor voluntarily decides to do so. We also agree that when KAM are communicated in the auditor's report on financial statements prepared in accordance with special purpose frameworks, ISA 701 should apply in its entirety.

##### Proposed ISA 805 (paragraphs A19 and A23)

We agree that for audits of a single financial statement or a specific element of a financial statement (ISA 805 engagements), ISA 701 would not be applicable unless communication of KAM in the auditor's report on such single financial statements or specific elements (ISA 805 auditor's report) is required by law or regulation, or the auditor voluntarily decides to do so. We also agree that when KAM are communicated in the auditor's report on a single financial statement or a specific element of a financial statement, ISA 701 should apply in its entirety.

Moreover, we believe that reference should be permitted to be made, by means of an other-matter paragraph, in the ISA 805 auditor's report, to the fact that KAM were communicated in the auditor's report on the complete set of general purpose financial statements. We believe, however, that the application guidance contained in paragraph A23 of proposed ISA 805 is unclear with respect to the nature and extent of such reference which may result in inconsistent application by practitioners. Please see our

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response to “IAASB Request 3” for further details.

### *Going Concern*

#### Proposed ISA 800 (Paragraph A16)

We recommend that further guidance be provided to explain what is meant by “relevant” to the framework being used. As described in paragraph 2 of ISA 570 *Going Concern*, one might conclude that there are very few circumstances where assessing the ability of the entity to realize its assets and meet its obligations as they become due in the normal course of business would not be relevant to users of the financial statements.

We also note that in the context of a special purpose framework, describing management’s responsibilities for determining whether the “going concern” basis of accounting is appropriate may be confusing to the users in the context of reporting under a special purpose framework (for example, how would liquidation basis be applied in such circumstances?) Accordingly we have suggested revisions to the illustrative reports included in the appendix.

#### Proposed ISA 805 (paragraphs 15 and A18)

We agree with the requirement that when the auditor’s report on the complete set of financial statements includes a “Material Uncertainty Related to Going Concern” section, this section should be repeated in the ISA 805 auditor’s report. We note that the requirement in paragraph 15(a) of proposed ISA 805 that includes the phrase “Determine the effects...” may imply other responsibilities in addition to repeating the section. We suggest that the requirement be revised to be more specific as to the inclusion of the paragraph.

### *Auditor Independence*

We agree with the approach to align the ISA 800 and 805 auditor’s reports with the requirements in ISA 700, *Forming an Opinion and Reporting on Financial Statements*, to include in the ISA 800 and 805 auditor’s report an explicit statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor’s other ethical responsibilities in accordance with these requirements, with identification of the jurisdiction of origin of those requirements or reference to the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants*.

#### *Name of Engagement Partner* (Proposed ISA 800 par. A18; Proposed ISA 805 par. A21)

We agree with the approach to align the ISA 800 and 805 auditor’s reports with the ISA 700 requirement to disclose the name of the engagement partner in the ISA 800 and 805 auditor’s report for audits of listed entities, when required by law or regulation or when the auditor decides to do so.

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We recommend that the harm's way exemption also be specifically included in the proposed ISA 800 and ISA 805 standards.

*Opinion Section Required to be Presented First*

We support the approach set out in the exposure draft to align the ISA 800 and 805 auditor's reports with the ISA 700 requirements, including the flexibility in auditor reporting for audits conducted in accordance with the auditing standards of a specific jurisdiction and the ISAs.

*Improved Description of Auditor Responsibilities and Key Features of an Audit*

Furthermore, we agree with the approach to align the ISA 800 and 805 auditor's reports with the ISA 700 requirements that revise the description of the responsibilities of the auditor and key features of an audit, including the provision for certain components of the description to be presented in either an appendix to the auditor's report or, where law, regulation or national auditing standards expressly permit, for reference to be made to a website of an appropriate authority that contains a description that addresses, and is not inconsistent with, the description required by ISA 700.

**IAASB Request 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.*

Certain of our responses to "IAASB Request 1" and the appendix to this letter include suggestions for areas that could benefit from further guidance. In addition, to those items, we noted the following matters related to other information in the proposed standards. Paragraph 9 of proposed ISA 800 requires the auditor to determine whether application of the ISAs requires special consideration in the circumstances of the engagement. Paragraph A13 of proposed ISA 800 states that other information may include "reports prepared to meet the information needs of specific users." We are not clear as to what is intended by the reference to reports in this context however it appears to expand the definition of an annual report as set forth in ISA 720. We suggest that additional guidance be added to clarify when application of the requirements of ISA 720 (Revised) would be relevant in an ISA 800 engagement, including developing an example to be included in the illustrative auditor's reports.

With respect to proposed ISA 805, we note that paragraph 15(b) directs the auditor to include the description of an uncorrected material misstatement of the other information accompanying the complete set of financial statements in the ISA 805 auditor's report, when deemed "appropriate". We believe corresponding application guidance as to determining appropriateness would be helpful.

### IAASB Request 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?*

As noted in our response to “IAASB Request 1,” we 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.

*(b) Specific to proposed ISA 805 (Revised), whether respondents support the IAASB’s proposed direction that reference to KAM that is communicated in the auditor’s report on the complete set of financial statements be permitted in the ISA 805 auditor’s report using an OM paragraph and how this has been illustrated in the ISA (see paragraphs 25–32 above).*

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

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

As noted in our response to “IAASB Request 1,” we agree with the approach that for audits of a single financial statement or a specific element of a financial statement, ISA 701 would not be applicable unless required by law or regulation, or the auditor voluntarily decides to communicate KAM in the auditor’s report. We also agree that when KAM are communicated in the auditor’s report on a single financial statement or a specific element of a financial statement, ISA 701 should apply in its entirety.

When KAM have been communicated in the auditor’s report on a complete set of financial statements, we believe the auditor should be permitted to include a succinct reference in the ISA 805 auditor’s report to the existence of KAM in the auditor’s report on the complete set of financial statements, as shown in illustration 3 in Appendix 2 of proposed ISA 805, depending on the auditor’s judgment that such reference would be important to the users of the ISA 805 auditor’s report.

We note the comments in paragraph 31 of the Explanatory Memorandum that suggest that an auditor, following the guidance in paragraph A23 of proposed ISA 805 may choose to refer only to ‘relevant’ KAM that are communicated in the auditor’s report on the complete set of financial statements. We do not agree with this view and do not believe it should be permitted because we are concerned that the auditor may not be able to discern, or may choose not to discern, which matters could be relevant to the users of the ISA 805 report.

If, however, the IAASB decides to allow auditors to refer only to relevant KAM that are communicated in the auditor's report on the complete set of financial statements in ISA 805 auditor's reports, then we believe paragraph A23 of proposed ISA 805 should be more explicit to reflect that view. Further, we believe the words in the auditor's report should not imply that a conclusion is made that the KAM referenced from the complete set of financial statements are the only ones that are relevant, and therefore we suggest an illustration be included that refers to the fact that KAM have been communicated on the complete set of financial statements, and then draws attention to certain of the KAM that are relevant to the ISA 805 engagement.

We believe the guidance in the last sentence of paragraph A23 of proposed ISA 805 is not clear. We note that the sentence seems to indicate an expected consideration by the auditor as to whether to voluntarily apply ISA 701 to the ISA 805 engagement (through the reference to paragraph A19). Our understanding of the purpose of paragraph A23, was to provide guidance in determining whether and how to reference KAM communicated in the complete set of financial statements, rather than to imply that the fact that KAM are communicated in the report on the complete set of financial statements create the expectation that the auditor consider whether to voluntarily apply ISA 701 in the context of the ISA 805 engagement. We therefore believe further clarification is needed with respect to what is intended by this sentence or the sentence be deleted.

- (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).*

See our previous response.

#### **IAASB Request 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.*

#### *Going Concern*

We support limited amendments to extant ISA 810, *Engagements to Report on Summary Financial Statements* to address the reporting on summary information when there is a material uncertainty included in the auditor's report on the complete set of financial statements. The task force believes this could be important information for users of the ISA 810 report.

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*Other Information*

We believe that users of the summarized financial information would most likely be interested in whether the information is summarized correctly and therefore we do not believe that the report on summary financial statements needs to reference the other information reporting that may be contained in the audit of the complete set of financial statements.

**IAASB Request about the 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*
- *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 with the effective dates for proposed ISA 800 (Revised) and ISA 805 (Revised) as proposed in the exposure draft and that early adoption should be permitted.

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Thank you for the opportunity to present our views on the exposure draft. If you have any questions regarding the comments in this letter, please contact Linda Delahanty at +1-212-596-6063, [ldelahanty@aicpa.org](mailto:ldelahanty@aicpa.org).

Respectfully submitted,



/s/ Bruce Webb

Chair, Auditing Standards Board

## APPENDIX

### Other Comments

The Appendix to this letter includes additional comments and proposed editorial changes to specific paragraphs of the proposed ISAs.

#### Proposed ISA 800 (Revised)

##### *Definition of Special Purpose Frameworks*

##### Editorial suggestions:

- Paragraph A4 of proposed ISA 800—change “may be used by users” to “may be available to users”
- Paragraph A4 of proposed ISA 800—include the word “potentially” before broad distribution

##### *Restriction on Distribution or Use*

- Paragraph A20 of proposed ISA 800—change “these other matters” in the last sentence to “such a restriction.” It is not clear what “these other matters” is referring to.

#### **Proposed ISA 800—Illustration 1**

##### *Opinion Paragraph*

We believe the basis of accounting should be included at the end of the first paragraph because without the definition of the contract all additional references to “the contract” in the auditor’s report have not been defined and we believe it is important for users to understand the basis of accounting the opinion relates to. Therefore, we recommend retaining the last sentence of the first paragraph, which reads as follows:

“The financial statements have been prepared by management of ABC Company based on the financial reporting provisions of Section Z of the contract dated January 1, 20X1 between ABC Company and DEF Company (“the contract”).”

##### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

We believe the wording of the going concern paragraph is inappropriate given that the financial statements are prepared in accordance with the financial provisions of a contract. We believe the wording in this paragraph would need to change to fit the circumstances of the engagement (also see earlier comments on going concern under

“IAASB Request 1”). We recommend the following change to clarify the relevance of the going concern assumption and related risks as set forth in paragraph 2 of ISA 570, without linking the risks related to going concern to the basis of accounting.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, and for disclosing, as applicable, matters relating to the Company’s ability to realize its assets and discharge its liabilities in the normal course of business. ~~going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.~~

### ***Proposed ISA 800—Illustration 2***

#### *Circumstances*

- Delete repetitive words “or regulation” in the last bullet of the circumstances.

#### *Opinion Paragraph*

- Retain the word “accompanying” in the first sentence of the opinion paragraph to be consistent with illustration 1.

### ***Proposed ISA 800—Illustration 3***

#### *Opinion Paragraph*

- Retain the word “accompanying” in the first sentence of the opinion paragraph to be consistent with illustration 1.

#### *Other Matter Paragraph*

The Other Matter Paragraph refers to the fact that the auditor has also issued an auditor’s report on financial statements prepared by ABC Company for the same period in accordance with a general purpose framework. We believe the illustration should include the type of opinion expressed on the general purpose financial statements (for example, ‘unmodified’).

#### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

- Same comment as in Illustration 1 related to the going concern paragraph and tailoring to the accounting framework used to prepare the financial statements.

## **Proposed ISA 805 (Revised)**

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

We recommend that the use of “single financial statement” and “specific element” be used consistently throughout the proposed standard. Paragraphs A22 and A24 of proposed ISA 805 interchangeably use (financial statement, audited financial statement, audited element, or the element)

### **Proposed ISA 805—Illustration 1**

#### *Opinion Paragraph*

Retain the word “accompanying” in the first sentence of the opinion paragraph to be consistent with other illustrations.

#### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

We believe the wording of the going concern paragraph is inappropriate given that the financial statements are prepared in accordance with the financial reporting framework of Jurisdiction X relevant to preparing a balance sheet. We believe the wording in this paragraph would need to change to fit the circumstances of the engagement (also see earlier comments on going concern under “IAASB Request 1”). We recommend the following change to clarify the relevance of the going concern assumption and related risks as set forth in paragraph 2 of ISA 570, without linking the risks related to going concern to the basis of accounting.

In preparing the financial statement, management is responsible for assessing the Company's ability to continue as a going concern, **and for disclosing, as applicable, matters relating to the Company's ability to realize its assets and discharge its liabilities in the normal course of business.** ~~going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.~~

### **Proposed ISA 805—Illustration 2**

#### *Opinion Paragraph*

Retain the word “accompanying” in the first sentence of the opinion paragraph to be consistent with other illustrations.

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*Opinion Paragraph*

We believe the basis of accounting should be included at the end of the first paragraph to define the basis used to prepare the financial statements. Therefore, we recommend retaining the last sentence of the first paragraph, which reads as follows:

“The financial statement has been prepared by management using the cash receipts and disbursements basis of accounting described in Note X.”

***Proposed ISA 805—Illustration 3***

*Opinion Paragraph*

We believe the basis of accounting should be included at the end of the first paragraph to define the basis used to prepare the financial statements. Therefore, we recommend retaining the last sentence of the first paragraph, which reads as follows:

“The schedule has been prepared by management based on [*describe the financial reporting provisions established by the regulator*].”