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**Exposure Draft, Proposed 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:

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the Exposure Draft, Proposed 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* (ED), issued by the International Auditing and Assurance Standards Board (IAASB).

We have supported and continue to support the IAASB initiatives related to enhancing auditor reporting. We agree with the IAASB's effort to consider the effect on ISA 800 and ISA 805 auditor's reports of the enhancements in the recently released new and revised ISAs related to auditor reporting on complete sets of general purpose financial statements.

We also support the IAASB's decision to make conforming amendments now to the reporting requirements of ISA 800 and ISA 805 with a goal of aligning the effective dates with the new and revised ISAs. This alignment in effective dates will allow for the scope of the planned post-implementation review for auditor reporting to include ISA 800 and ISA 805. We believe the post-implementation review is an important element in determining how the reporting enhancements have been applied, and received by users, in respect of both general purpose and special purpose financial statements.

We understand that the scope of the revisions proposed to ISA 800 and 805 is limited to auditor reporting. Accordingly, our comments address auditor reporting for these engagements, and do not address (and we have not considered) other aspects of ISA 800 or ISA 805.

We believe, as a general principle, that when the auditor reporting enhancements are applicable or relevant to ISA 800 and ISA 805 auditor's reports, they should be included in a manner consistent with auditor's reports issued in accordance with ISA 700. We note that the only exception proposed in the ED relates to reporting of Key Audit Matters (KAM), which is required for ISA 700 auditor's reports for audits of listed entities, but is instead voluntary for all audits conducted in accordance with ISA 800 and ISA 805. We agree with this proposal, because we believe that the purpose and intended users of an individual ISA 800 or ISA 805 auditor's report are relevant to determining whether key audit matters are appropriate or beneficial in the context of a specific engagement.

Although we agree in principle with the proposals in the ED, we believe that more clarity is necessary in the guidance for the auditor in the following areas (which we explain more fully in our responses to Questions 1.2 and 1.3):

- ▶ Determining the documents accompanying special purpose financial statements that would be in scope of the auditor's responsibilities under ISA 720, *The auditor's responsibilities relating to other information*
- ▶ When the auditor is engaged to audit a single financial statement or element in conjunction with an engagement to audit the complete financial statements, determining the effect on the ISA 805 auditor's report of the information in the auditor's report on the complete set of financial statements (complete-set auditor's report), as follows:
  - Whether the required consideration of the information in the auditor's report on the complete set of financial statements is only necessary when the single financial statement or element that is the subject of the ISA 805 auditor's report is as of the same date or for the same financial period.
  - Whether the required reporting on other information in the complete-set auditor's report is required to be repeated in the ISA 805 auditor's report when the ISA 805 auditor's report addresses a single financial statement or element that is also in the complete set of financial statements.
  - When the timing of the auditor's work (or date of the auditor's report) related to the ISA 805 engagement is later than that for the complete set of financial statements, whether the evaluation of whether a material uncertainty related to going concern exists should occur independently under the ISA 805 engagement so that the auditor takes into account any relevant new information.
  - Whether the rationale and options for voluntarily communicating KAM in an ISA 805 auditor's report can be more clearly addressed, including the auditor's consideration of the purpose and intended users of the ISA 805 auditor's report.

We also acknowledge that the ED requests input on the priority and necessity of conforming amendments to ISA 810 reports on engagements to report on summary financial statements. In our response to Question 1.4, we have expressed our view that conforming amendments to ISA 810 are much lower in priority and any such amendments should be narrowly focused on the new reporting elements.

Responses to the other specific questions and general matters on which the IAASB is seeking feedback are set out in Sections 1 and 2, respectively.

## 1. Responses to specific matters on which the IAASB is seeking comments

### **1.1 *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). If not, respondents are requested to provide their rationale as to why they do not support the proposals and, where applicable, suggest alternative approaches.***

Yes, we agree with the IAASB's proposed applicability of the enhancements resulting from the new and revised auditor reporting ISAs for ISA 800 and 805 auditor's reports, as helpfully summarized in paragraph 10 of the Explanatory Memorandum.

With regard to the following enhancements, we agree with the IAASB's premise that the enhancements are equally applicable to ISA 800 and ISA 805 auditor's reports and should be implemented in a manner consistent with ISA 700 auditor's reports:

- ▶ Reporting on going concern in accordance with ISA 570 (Revised), when the going concern basis of accounting is relevant to the special purpose financial statements
- ▶ Explicit statement of the auditor's independence in accordance with relevant ethical requirements and fulfillment of the auditor's other ethical responsibilities
- ▶ Revised format of the auditor's report, notably the placement of the opinion first directly followed by the basis of opinion
- ▶ Enhanced description of the auditor's responsibilities and key features of the audit
- ▶ Enhanced description of management's responsibilities, including responsibilities related to the assessment of the entity's ability to continue as a going concern (when relevant) and the identification of those charged with governance (when such a body exists with responsibility for oversight of the preparation of the special purpose financial statements)
- ▶ Disclosure of the name of the engagement partner for audits of listed entities

With regard to reporting on other information included in an annual report in accordance with ISA 720 (Revised), we agree that such reporting would be applicable to ISA 800 auditor's reports if an annual report accompanies the special purpose financial statements; however, this is not a common occurrence in most jurisdictions.

In regard to the applicability of such reporting to ISA 805 auditor's reports, we agree with the applicability of reporting on other information when the auditor is not engaged to audit the complete set of financial statements concurrently (i.e., it is a standalone engagement); however, we also do not believe other information will be common in these circumstances. But, in the case when the auditor is engaged to audit both the complete set of financial statements and an element of those financial statements, we believe that more guidance is needed around redundant reporting on the same annual report in both auditor's reports. Our comments in this regard are included in our response to Question 1.2.

We agree with the proposal that the communication of KAM is voluntary for ISA 800 and 805 auditor's reports. We have included further comments in support of voluntary communication of KAM within our response to Question 1.3(a) below.

## **1.2 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.**

We agree with maintaining the relationship that ISAs 800 and 805 have to ISA 700 – that is, the reporting requirements and guidance in ISA 700 apply to ISA 800 and ISA 805 auditor’s reports adapted as necessary in the circumstances. Our comments below are focused on where we believe the requirements and guidance in ISA 800 and ISA 805 could use further clarity in order to result in consistent implementation.

### *Applicability of ISA 720 to ISA 800 engagements*

The new proposed paragraph A13 seems to have the intention of providing guidance on when other information issued in conjunction with special purpose financial statements would be within the auditor’s responsibilities under ISA 720. This paragraph states that “for the purposes of this ISA, other information may include reports prepared to meet the information needs of specific users.” This guidance is not sufficiently clear as to how the scope of work under ISA 720 may be different for ISA 800 engagements. We believe it would be helpful to make a more explicit connection to the requirements in ISA 720 to which this guidance applies.

### *ISA 805: When the auditor is also engaged to audit the complete set of financial statements*

ISA 805 includes requirements and guidance addressing the circumstance in which the auditor is engaged to report on a single financial statement or element in conjunction with the audit of the complete set of financial statements. Paragraphs 12-19 include requirements for the auditor to determine the effect of the opinion and other information in the complete-set auditor’s report on the ISA 805 auditor’s report. As it relates to these requirements, we have the following comments and concerns:

- ▶ These requirements do not explicitly state whether this required consideration is only necessary when the ISA 805 auditor’s report and the complete-set auditor’s report are as of the same date or cover the same period (i.e., the financial statement period or date are aligned), or if the auditor must consider a complete-set auditor’s report that was issued for an earlier date or period. We believe that these requirements should only apply when the financial statement date or period is aligned.
- ▶ Paragraph 13 of ISA 805 acknowledges that an audited single financial statement or an audited specific element may be published together with the entity’s audited complete set of financial statements. In the circumstance when this set of financial statements (inclusive of the audited single financial statement or element) is accompanied by an annual report, it is unclear whether the auditor would be required to include an Other Information section in both the complete-set auditor’s report and the ISA 805 auditor’s report (with both Other Information sections addressing the same annual report) or whether such reporting is only required in the complete-set auditor’s report. We believe that any redundancy in reporting about this common annual report in the ISA 805 auditor’s report should be limited to when a material misstatement in the other information has been reported in the complete-set auditor’s report and that material misstatement is relevant to the subject matter of the ISA 805 auditor’s report.
- ▶ In regard to the reporting of a material uncertainty related to going concern in the complete-set auditor’s report, paragraph 15 requires the auditor to always include that material uncertainty reporting in the ISA 805 auditor’s report. It is possible that the timing of the auditor’s work (or date of the auditor’s report) related to the ISA 805 engagement could be later than that for the complete set

of financial statements. Under these circumstances, we believe that the evaluation of whether a material uncertainty exists should occur independently under ISA 805 such that the auditor considers the results of the evaluation performed for the complete-set auditor's report but also takes into account any relevant new information since the time of that evaluation.

### **1.3 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?*

Yes, we agree that the communication of KAM in auditor's reports for ISA 800 and ISA 805 engagements should be voluntary. ISA 800 and 805 auditor's reports serve a special purpose – a purpose that is suited to a specific user group, which results in great diversity in the underlying user needs that are addressed by these auditor's reports.

We find that these engagements are generally more common for entities other than listed entities. As KAM is not required to be communicated for audits of entities other than listed entities, it stands to reason that KAM would not be required for ISA 800 and 805 auditor's reports for entities other than listed entities.

We also believe that the requirement to communicate KAM should not be extended to ISA 800 and ISA 805 engagements for listed entities for two primary reasons:

- ▶ Those charged with governance may not have the same oversight responsibilities for the financial reporting process associated with special purpose financial statements as they do for the entity's general purpose financial statements. As KAM are determined from matters communicated with those charged with governance, KAM may not be able to be effectively determined in this situation.
  - ▶ When those charged with governance do have oversight of the preparation of the special purpose financial statements, we believe that the auditor's required understanding of the purpose of the financial statements and the intended users are important to the auditor's consideration of whether to communicate KAM. For example, for certain special purpose financial statements, the financial information may be prepared solely for management's use or for a specific user group with which the auditor may have the ability to directly communicate about the audit. In such a circumstance, the communication of KAM may be unnecessary.
- (b) *Specific to proposed ISA 805 (Revised), whether respondents support the IAASB's proposed direction that reference to KAM 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 paragraph and how this has been illustrated in the ISA.*

Related to our comments in response to Question 1.2 above, we believe that reference in the ISA 805 auditor's report to KAM that are communicated in the complete-set auditor's report is only appropriate when the ISA 805 auditor's report is for the same financial statement date or period as the complete-set auditor's report.

We agree that the use of an Other Matter paragraph, which is limited to highlighting the existence of KAM in the complete-set auditor's report, is the appropriate format if such a reference is made.

For audits of listed entities (which are typically the audits in which KAM would be communicated), the complete-set auditor's report is generally publicly available. It would seem unlikely that users of an ISA 805 auditor's report for a listed entity would need a reference to the complete-set auditor's report in order to know that it exists and is available. Although the reference would specifically highlight the existence of KAM in the complete-set auditor's report, it seems that this reference will become less valuable over time as it will become common knowledge that KAM is communicated in complete-set auditor's reports of listed entities.

For audits of non-listed entities, we believe that the communication of KAM in the complete-set auditor's report will be relatively rare unless required in the jurisdiction. However, in the case where KAM has been communicated in the auditor's report of a non-listed entity, we agree with the point in paragraph A23 that reference to the KAM in the ISA 805 auditor's report should be made only when the complete-set auditor's report is available to the intended users of the ISA 805 auditor's report.

Overall, we do not see a great need for the cross-reference of KAM in the ISA 805 auditor's report, and we would prefer that it be less of a focus in ISA 805. Because illustrative auditor's reports in the appendix may be used independently of the application material, we believe that the illustrative Other Matter paragraph that is included within the full illustrative auditor's report in Illustration 3 should be relocated and limited to placement within the application material (i.e., A23) instead. We believe that this relocation provides the Other Matter paragraph in the context of guidance about its use and hence will reduce the risk that the Other Matter paragraph is assumed to be expected in all circumstances when KAM are communicated in the complete-set auditor's report.

*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 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;*

In regard to the usefulness of the guidance in paragraph A23, we find the paragraph difficult to understand as structured because of the several considerations given in a single paragraph. We also find that paragraph A19, which addresses the auditor's ability to voluntarily communicate KAM in context of the ISA 805 engagement, does not assist the auditor in considering whether KAM would be appropriate for the ISA 805 auditor's report.

For clarity, we would recommend restructuring A19 to include relevant considerations about voluntarily communicating KAM, either in the context of the ISA 805 engagement or through a reference to the complete-set auditor's report (when appropriate). We would then limit paragraph A23 to the logistics of how to include a reference to the complete set auditor's report when the auditor has determined such a reference is appropriate.

We believe there are three relevant considerations in regard to an auditor's consideration of KAM in the context of an ISA 805 engagement, as follows:

- ▶ *The purpose of the financial statements and the intended users.* We believe this is the most important consideration that forms the rationale for any communication of KAM in an ISA 805 auditor's report (either voluntarily or through a reference to the complete-set auditor's report). The auditor (perhaps informed by discussions with management and those charged with governance) should first consider that KAM would have a sufficient degree of benefit to the intended users before considering the two options for its communication.
  - ▶ *The ability to effectively determine KAM in the context of the ISA 805 engagement.* Given the auditor's determination that KAM would be beneficial to users of the ISA 805 auditor's report, the auditor should consider whether KAM could be effectively provided. As noted in Question 1.2, this is largely dependent on whether those charged with governance have oversight responsibilities related to the single financial statement or element. If KAM is viewed as beneficial and it can be provided in the context of the ISA 805 engagement, voluntary communication of KAM in the ISA 805 auditor's report likely would be the best option.
  - ▶ *In cases when KAM has been communicated in the complete-set auditor's report, the degree of relevance of KAM in the complete-set auditor's report to the ISA 805 engagement may be considered.* If KAM in the complete-set auditor's report is considered relevant and the complete-set auditor's report is available to the intended users, then the auditor may consider an Other Matter paragraph to highlight the existence of the KAM. To make this option less of a focus in line with our comments above, we believe that the guidance should explain that such a reference is likely unnecessary if the intended users are already (or are expected to be) aware of the KAM in the complete-set auditor's report.
- (ii) *In light of views on (i) and the Board's deliberations as summarized, 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 KAM).*

We believe our suggestions made above for clarifying the guidance would assist in avoiding inappropriate implementation of KAM in the ISA 805 auditor's report. In our opinion, we believe any prescription in the referencing of KAM in the complete-set auditor's report is unwarranted because:

- ▶ We believe such a reference will be unnecessary in most circumstances, as we expressed above.
- ▶ Prescription around such a reference puts undue focus on the communication of KAM in an ISA 805 auditor's report, which is intended to be voluntary.

We believe that the applicability of KAM to both ISA 800 and ISA 805 auditor's reports can be further considered as part of the planned post-implementation review for auditor reporting.

**1.4 Whether conforming amendments to extant ISA 810 are needed at this time and, if so, what approach could be taken to incorporate the enhancements resulting from the new and revised Auditor Reporting standards.**

We do not see the same urgency in determining conforming amendments to ISA 810 auditor's reports, as we do for ISA 800 and 805 auditor's report for the following reasons:

- ▶ ISA 810 engagements are not audits – they are engagements to report on the derivation of the summary financial statements from the audited financial statements. The enhancements to the new and revised ISAs related to auditor reporting are, by definition, for audits of financial statements and not for other assurance engagements.
- ▶ Our experience is that ISA 810 engagements are relatively rare in most jurisdictions. We have not heard any calls for improvements to these reports, which by design, serve a specific purpose.
- ▶ We are supportive of the IAASB's published Work Plan for 2015-16, which prioritizes projects such as group audits that are highly relevant to issues in practice. We see amendments to ISA 810 as a very low priority in comparison, and we would not want the IAASB to pursue such amendments if resources from the planned 2015-16 projects would need to be diverted.

Nevertheless, we do see that paragraphs 17–18 of ISA 810 include a requirement for the auditor to make reference in the ISA 810 report when the complete-set auditor's report includes a modified opinion or contains an Emphasis of Matter paragraph or an Other Matter paragraph. As the new required reporting for a materiality uncertainty related to going concern and material misstatement in the other information are no longer forms of Emphasis of Matter or Other Matter paragraphs, we would support limited conforming amendments to paragraphs 17-18 to address these new reporting elements.

**Responses to general matters on which the IAASB is seeking comments**

**2.1 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 are supportive of the alignment of the effective date of the proposed revisions in the ED with the effective date of the new and revised Auditor Reporting standards.

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We would be pleased to discuss our comments with members of the IAASB or its staff. If you wish to do so, please contact Karen M. Golz, Global Vice Chair, Global Professional Practice ([karen.golz@eyg.ey.com](mailto:karen.golz@eyg.ey.com)).

Yours sincerely,

*Ernst + Young Global Limited*