

22 April 2015

Submitted electronically to kathleenhealy@jaasb.org

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International Auditing and Assurance Standards Board
545 Fifth Avenue
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Dear Kathleen

Comments on Proposed Changes to:

- a. *The International Standard on Auditing (ISA) 800 (Revised) – Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks; and***
- b. *ISA 805 (Revised) – Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.***

The Independent Regulatory Board for Auditors (IRBA) is both the Audit Regulator and National Auditing Standard Setter in South Africa. The IRBA has as one of its statutory objectives the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in South Africa. Its statutory Committee for Auditing Standards (the CFAS) is responsible for assisting the IRBA to adopt, develop, maintain, issue and prescribe auditing pronouncements.

We appreciate this opportunity to comment on the proposed changes to the International Standards on Auditing (ISAs) 800 (Revised) – *Special Considerations – 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*, developed by the International Auditing and Assurance Standards Board (IAASB).

Our comments have been prepared by a task group of the CFAS comprising representatives from Small and Medium Sized Practices, large firms and the South African Institute of Chartered Accountants. Our comments are presented in the following sections:

1. General comments
2. Request for specific comments and responses; and
3. Request for comments on general matters

Kindly e-mail us at ivanker@irba.co.za or ychoonara@irba.co.za or phone on direct line: +27 87 940 8838 / +27 87 940 8867 if further clarity is required on any of our comments.

Yours faithfully

Signed electronically

Imran Vanker
Director: Standards

Yussuf Choonara
Professional Manager: Standards

1. GENERAL COMMENTS

- a. We agree with the IAASB that the enhancements to the Auditor Reporting standards should also apply to engagements performed in accordance with proposed ISA 800 (Revised) and proposed ISA 805 (Revised) and generally support the proposed approach (refer to our detailed comments under request for specific comments and responses paragraphs 4 to 16).
- b. We are of the view that some consideration should be given by the IAASB to provide further guidance for the scenario where:
 - The auditor is engaged to perform an ISA 805 engagement with a different reporting period end to the complete set of financial statements on a specific account balance or statement.
- c. In both ISA 800 (Revised) and ISA 805 (Revised) we acknowledge that the going concern basis of accounting may not be relevant to certain financial statements prepared in accordance with a special purpose framework. We are concerned that as proposed, auditors may inappropriately conclude that the going concern considerations are not applicable. We suggest that the guidance be enhanced to ensure that the auditor does make an assessment of the relevance of the going concern basis of accounting and if relevant, ISA 570 (Revised) shall apply in its entirety.
- d. The effective date of proposed ISA 800 (Revised) should be amended to read December 15, and not December 31.

2. REQUEST FOR SPECIFIC COMMENTS AND RESPONSES

The IAASB is seeking comments on the following specific matters:

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?*

Response:

1. We agree with the IAASB that the enhancements to the Auditor Reporting standards should also apply to engagements performed in accordance with the proposed ISA 800 (Revised) and proposed ISA 805 (Revised).
2. We support the decision of the IAASB to retain the existing approach in respect of both proposed ISA 800 (Revised) and proposed ISA 805 (Revised) not to repeat the reporting requirements of the ISA 700 (Revised) series of standards, and the IAASB's emphasis that ISA 700 (Revised) provides the overarching reporting requirements applicable for

auditor's reports.

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?*

Response:

3. We are of the view that the proposed standards will be useful to auditors to enable them to appropriately apply the new and revised Auditor Reporting standards in the context of ISA 800 and ISA 805 engagements.

However we do have the following concerns and / or suggestions:

Proposed ISA 800 (Revised)

Emphasis of matter – Basis of Accounting

4. The proposed ISA 800 (Revised) does not prescribe the location of the emphasis of matter paragraph in respect of the basis of preparation of the financial statements. We believe as this is a fundamental matter, the positioning of this paragraph early on in the auditor's report is important and needs to be mandated since it highlights the purpose for which the financial statements are prepared. The positioning of this paragraph after the basis of opinion paragraph would be appropriate.

Key audit matters (KAM)

5. We are supportive of the proposals regarding KAM for ISA 800 engagements, however, we suggest that paragraph A17 also makes reference to paragraph A12. Paragraph A12 in proposed ISA 800 (Revised) refers to cases where ISA 260¹ (Revised) may not be applicable, however, the communication of KAM can only take place if there has been a discussion on those matters with those charged with governance. Thus the link back to ISA 260 needs to be made where the communication of KAM is being considered.

Forming an opinion and Reporting Considerations – Alerting readers that the Financial Statement are Prepared in Accordance with a Special Purpose Framework

6. We suggest that it is necessary to include a reference to ISA 706² (Revised) in paragraph 14 as opposed to in paragraph A19 of the application and other explanatory material.

Illustrative examples of auditor's reports

7. The Illustrations in the appendices need to have general consistency in the wording across all the examples, for example

¹ ISA 260 (Revised) Communication with Those Charged with Governance

² ISA 706 (Revised) Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

In the opinion paragraph:

- In illustration 1, the word “accompanying“ has been included, however, in illustrations 2 and 3 it has been removed; and
 - In illustration 1, the basis of preparation sentence (the last sentence of the first paragraph “*Financial statements have been prepared by management...*”) has been removed, however, in illustration 2 and 3 this sentence is included.
8. In Illustration 2, the last bullet point in the fact pattern has a repetition of “or regulation” and should be deleted.
9. We also suggest that the IAASB consider including a useful scenario, where management has made a choice of the financial reporting framework. This would assist auditors in the application of proposed ISA 800 (Revised).

Proposed ISA 805 (Revised)

Going concern

10. We do not support the IAASBs proposal that where a material uncertainty related to a going concern paragraph is included in the auditor’s report on the complete set of financial statements that it should always be included in an ISA 805 report as it might not be relevant to a given set of circumstances. We believe that where a material uncertainty related to going concern paragraph in the auditor’s report on the complete set of financial statements is relevant to the single financial statement, element, account or item of a financial statement, only then should it be included in an ISA 805 report. Such relevance should be considered and documented by the auditor.
11. We acknowledge that the going concern basis of accounting may not be relevant to certain financial statements prepared in accordance with a special purpose financial reporting framework. Furthermore it should be recognised that the single financial statement or specific element concerned may be prepared for a specific purpose and using a financial reporting framework different from that applied to the complete set of financial statements. As such, a material uncertainty related to a going concern paragraph included in the auditor’s report on the entities complete set of financial statements should then only be included in the auditor’s ISA 805 report if the going concern basis of accounting is indeed relevant in terms of the framework being applied. In such cases compliance with ISA 570³ (Revised) should be addressed.
12. The time difference between the ISA 805 auditor’s report date and the auditor’s report date on the complete set of financial statements also needs to be considered. This will be especially important where there are going concern issues in the reporting period of the complete set of financial statements but in the subsequent ISA 805 engagement the

³ ISA 570 (Revised) Going Concern

circumstances around the going concern have changed. Again, if the going concern basis of accounting is applicable in the circumstances of the particular ISA 805 engagement, ISA 570 (Revised) shall be applied in its entirety, taking cognisance of all of the relevant circumstances of the engagement.

13. Paragraph 15(b) is confusing as it mixes the issues relating to going concern and uncorrected material misstatement of the other information; also taking into account the matters relating to going concern that we have raised above. We suggest that paragraph 15 be split to address going concern and other information separately and should be redrafted to address these matters in the same manner that paragraph 14 was drafted. Accordingly paragraph A24 should be removed and may have to be replaced with guidance on some of the matters related to going concern raised above.

Illustrative examples of auditor's reports

14. In paragraph A3 there is a reference to Appendix 1 that lists examples of such other historical financial information. However the list provided in the appendix does not give an example of a single financial statement and for completeness sake, the list should be updated with these examples.
15. The Illustrations in the appendices need to have general consistency in the wording across all the examples, for example in illustration 1 the following bullet point was omitted (6th bullet):
 - “The auditor has concluded an unmodified (i.e. “clean”) opinion is appropriate based on the audit evidence obtained”.
16. In illustration 3 under the paragraph relating to the Responsibilities of Management, the following was omitted:
 - “In preparing the financial statement, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters relating to 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.”

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?

Response:

17. We support the position taken by the IAASB not to mandate the communication of KAM for listed entities under proposed ISA 800 (Revised) and proposed ISA 805 (Revised).

18. We also support the IAASB's decision that under proposed ISA 800 (Revised) and proposed ISA 805 (Revised) KAM are to be communicated either when required by law or regulation, or otherwise on a voluntary basis.
19. We further support the IAASB's decision that when KAM is communicated in the auditor's report on special purpose financial statements [ISA 800 (Revised), par. A17], or on a single financial statement or a specific element of a financial statement [ISA 805 (Revised), par. A19], ISA 701⁴ (Revised) is to be applied in its entirety.

(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).

20. We support the IAASB's proposal that reference to KAM communicated in the auditor's report on the complete set of financial statements be permitted in the ISA 805 auditor's report, as it may be beneficial to the users.
21. Notwithstanding our support that reference to KAM communicated in the auditor's report on the complete set of financial statements be permitted, we suggest that the IAASB consider the unintended consequences thereof especially when:
 - The auditor engaged to perform the ISA 805 engagement is not the main auditor reporting on the financial statements under ISA 700 (Revised) and the risk of referring to another auditor's KAM; or
 - Different reporting frameworks are used to prepare the complete set of financial statements and the single set of financial statements; or
 - The reporting periods are different.
22. We support the approach of using an Other Matters paragraph to refer to the existence of KAM in the auditor's report on the complete set of financial statements in the ISA 805 (Revised) 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 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*

Response:

⁴ ISA 701 (Revised) Communicating Key Audit Matters in the Independent Auditor's Report

23. We are of view that the guidance in paragraph A23 will be useful in terms of including a reference to KAM communicated in the auditor's report on the complete set of financial statements where relevant in the ISA 805 (Revised) auditor's report.
24. We support the IAASB's approach as it allows auditors to apply their professional judgement to determine which method of communicating KAM is most useful to the users of the ISA 805 (Revised) auditor's report, in a given set of circumstances.

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

- (ii) *In light of views on (i) and the boards deliberations summarised 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).*

Response:

25. We are of the view that it is not necessary to establish requirements or expressly prohibit certain approaches in proposed ISA 805 (Revised) relating to making reference in the ISA 805 auditor's report to KAM included in the auditor's report on the complete set of financial statements.
 26. We support the IAASB's approach in allowing flexibility to auditors to determine what will be most useful to users of the ISA 805 (Revised) auditor's report. This approach enables auditors to exercise their professional judgement in determining which method of communicating KAM will be most appropriate for each ISA 805 engagement, but stress the need that areas of judgement are properly documented by the auditor.
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.*

Response:

27. In jurisdictions such as South Africa, ISA 810 is extensively used, as all listed entities issue summarised financial statements. We suggest that in the interest of ensuring consistency ISA 810 should be updated to at least align the standard with the new and revised Auditor Reporting standards. However we also recognise that there are a few other fundamental issues (e.g. suitable criteria for the preparation of summary financial statements) that should also be addressed which would be a separate project, and not delay the conforming amendments to ISA 810.

REQUEST FOR COMMENTS ON GENERAL MATTERS

- (a) *Preparers (including Small- and Medium-Sized Entities (SMEs)) and Users (including*

regulators) — The IAASB invites comments on the proposed revised ISAs from preparers (particularly with respect to the reporting aspects of the proposed ISAs and whether the communicative value of the auditor's reports in accordance with proposed ISA 800 (Revised) and proposed ISA 805 (Revised) would be enhanced).

Response:

These comments do not include comments from preparers or from users.

(b) Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposed changes to the ISAs, in particular, on any foreseeable difficulties in applying it in a developing nation environment.

Response:

No comment

(c) Translations — Recognizing that many respondents may intend to translate the final ISAs for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed revised ISAs.

Response:

No comment

(d) 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.

Response:

We agree with the effective date as posed in this question, but refer to our comment in paragraph 1(d).
