

2 November 2015

Submitted electronically to [kathleenhealy@iaasb.org](mailto:kathleenhealy@iaasb.org)

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Dear Kathleen

**Comments on proposed changes to the International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements***

The Independent Regulatory Board for Auditors (IRBA) is both the audit regulator and national auditing standard-setter in South Africa. One of its statutory objectives is to protect the public by regulating audits performed by registered auditors, thereby helping to promote investment and employment in South Africa. Its statutory Committee for Auditing Standards (CFAS) assists the IRBA to adopt, develop, maintain, issue and prescribe auditing pronouncements.

We appreciate this opportunity to comment on the proposed changes to the International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*, developed by the International Auditing and Assurance Standards Board (IAASB).

Our comments have been prepared by a CFAS task group, comprising representatives from small and medium-sized practices, large firms, the South African Institute of Chartered Accountants (SAICA) and an academic. Our comments are presented under the following sections:

- A. General comments;
- B. Request for specific comments and responses; and
- C. Request for comments on general matters.

The Annexure to this letter contains an analysis of data collected on some application aspects of ISA 810 among large listed companies in South Africa. This data is collected and summarised by the IRBA staff, and do not constitute inspection findings. This information is provided to assist the IAASB in the consideration of the proposed changes and future projects.

If further clarity is required on any of our comments, kindly e-mail us at [ivanker@irba.co.za](mailto:ivanker@irba.co.za) or [amohan@irba.co.za](mailto:amohan@irba.co.za). Alternatively, phone us on the following direct lines:

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Yours faithfully

***Signed electronically***

**Imran Vanker**  
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## A. GENERAL COMMENTS

1. We agree with the IAASB that the enhancements to the new and revised Auditor Reporting Standards (Reporting Standards) should also apply to engagements performed in accordance with proposed ISA 810 (Revised), *Engagements to Report on Summary Financial Statements*. We also support the proposed approach.
2. It is evident that the IAASB has taken cognisance of the work that has already been done in relation to 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*, including the feedback that was received from respondents to those exposure drafts.
3. In South Africa, extant ISA 810 is extensively used by auditors of listed entities and therefore the limited and conforming changes being proposed at present are important to ensure that ISA 810 continues to be applied in line with the Reporting Standards, ensuring that a consistent message is being communicated to users of both complete sets of financial statements and related summary financial statements.
4. We believe that proposed ISA 810 (Revised) will continue to provide a proper basis for reporting on summary financial statements. However, there are issues relating to this standalone assurance engagement and these may warrant a more comprehensive review of the standard by the IAASB. In South Africa we supplement the standard with jurisdictional specific guidance on its interpretation and application in accordance with the requirements of our local legislation. The IRBA guide for registered auditors, entitled *Reporting on Financial Information Contained in Interim, Preliminary, Provisional and Abridged Reports Required by the JSE Listings Requirements*, reflects these interpretations for listed companies in South Africa. As such, withdrawing extant ISA 810 would unduly limit currently acceptable practice in South Africa.

## B. REQUEST FOR SPECIFIC COMMENTS AND RESPONSES

1. ***Whether respondents agree with the manner in which paragraph 17 has been changed to address reference to additional information that may be included in the auditor’s report on the audited financial statements, as well as the additional guidance proposed in paragraph A15 and illustration 1 of the Appendix to proposed ISA 810 (Revised)?***

### **Response:**

1. Paragraph 17 is sufficient in terms of addressing all the matters in subsections (a) to (e) which may have been included in an auditor’s report on the full set of audited financial statements, as well as referring to the communication of key audit matters (KAM) in terms of ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*.

However, the use of the word “or” may suggest that the matters are mutually exclusive. We propose the use of “and/or” at the end of paragraph 17(d), as indicated below in **bold**, instead of using “or”.

17. When the auditor’s report on the audited financial statements includes:

- (d) Communication of Key Audit Matters in accordance with ISA 701; **and/or**

2. We believe the approach that has been retained from extant ISA 810 is appropriate. This is with regard to making reference to any of these matters having been included in the auditor's report on the audited financial statements and describing the matter (excluding KAM), and the effect thereof, if any, on the summary financial statements.
3. Reference alone to the matter, without describing it and its effect (if any), would not be sufficient. The nature of summary financial statements is such that it is intrinsically linked to the audited financial statements from which it is derived and should not communicate a different message to the intended users – likewise for the auditor's report on the two sets of financial statements concerned.
4. The word "but", following subsection (e) of paragraph 17, may indicate that there is a contradiction or a non-alignment between the audited financial statements and the summary financial statements. The word "and" may be considered as a better option to be used here.
5. Subsections (i) and (ii) of paragraph 17...

Throughout these subsections "or" is used to refer to all the relevant matters that may be addressed in the auditor's report on the full set of audited financial statements. We suggest the use of the words "**and/or**" as the use of just the word "or" suggests that the matters are mutually exclusive and thus only one matter may be referred to. This may not necessarily be accurate as reference to more than one matter may be required, depending on what is communicated in the auditor's report on the full set of audited financial statements.

The subsections may therefore read as follows:

(i) State that the auditor's report on the audited financial statements includes a qualified opinion, an Emphasis of Matter paragraph, an Other Matter paragraph, a *Material Uncertainty Related to Going Concern* section, communication of key audit matters, **and/or** a statement that describes an uncorrected material misstatement of the other information; and

(ii)-Describe: (Ref: Para. A15)

a.-The basis for the qualified opinion on the audited financial statements, and the effect thereof, if any, on the summary financial; **and/or**

b. The Emphasis of Matter, the Other Matter, the material uncertainty related to going concern, **and/or** the uncorrected material misstatement of the other information described in the auditor's report on the audited financial statements and the effect(s) thereof, if any, on the summary financial statements.

6. We agree with the guidance proposed in paragraph A15 in which the auditor is required to include a statement in the auditor's report on the summary financial statements when the auditor's report on the audited financial statements includes KAM in terms of ISA 701, without the requirement of describing individual KAM.
7. Currently, if paragraph 17 is read with paragraph A15, KAM must be considered in the context of the auditor's report on the complete set of audited financial statements. This is particularly relevant, since the auditor is not the provider of original information about the entity and is therefore required, when communicating KAM, to refer to the related disclosure(s), if any, in the complete set of audited financial statements.

The summary financial statements do not provide users with all of the information (including disclosures) that is required to properly understand and interpret KAM reported in the auditor's report on the complete set of financial statements. Therefore, describing KAM in the auditor's report on the summary financial statements could have unintended consequences, which may lead to misunderstanding and misinterpreting the entity's financial information and the scope of the auditor's engagement, as well as adversely affecting users' decisions.

8. We recommend consistency in the identification of reports that comprise the summary financial statements in the opinion paragraph of the illustrative examples in proposed ISA 810 (Revised).

We suggest the following standard wording for illustration 1 (as well as illustrations 2 to 5):

*"The summary financial statements, which comprise the summary ~~balance sheet~~ statement of financial position as at December 31, 20X1, the summary ~~income~~ statement of comprehensive income, the summary statement of changes in equity and the summary ~~statement of cash flows~~ statement for the year then ended..."*

2. ***Whether respondents believe any further changes to ISA 810 are necessary as a result of the new and revised Auditor Reporting standards. If so, the IAASB would like to understand respondents' rationale as to why these further changes are needed as well as views as to when the board should develop and propose such changes in light of its other priorities?***

**Response:**

1. Refer to paragraph 14 on elements of the auditor's report.

For purposes of achieving a sufficient degree of symmetry and consistency between ISA 810 (Revised) and ISA 700 (Revised), as discussed in the explanatory memorandum (par. 25-26), it will be appropriate to require that the first section of the auditor's report should include the auditor's opinion, and have the heading "Opinion".

Although a specific ordering of elements is not prescribed, consistency within the standard could be enhanced by re-ordering the elements presented in paragraph 14 to represent a more logical communication sequence (as illustrated in the Appendices to the standard).

2. Refer to paragraph 18 (c) on adverse opinions or disclaimer of opinions.

We recommend that paragraph 18(c) be split to account for the adverse opinion and the disclaimer of opinion separately as indicated below:

*"(c) State that, as a result of the ~~adverse opinion or~~ disclaimer of opinion, it is inappropriate to express an opinion on the summary financial statements.*

*(d) State that, as a result of the adverse opinion, the accompanying summary financial statements are not consistent with (or a fair summary of) the audited financial statements of [...] in accordance with [describe established criteria]."*

3. Refer to paragraph 18.

We recommend that paragraph 18 should follow the same order of the illustrative reports numbers 4 and 5 contained in the Appendix of ISA 810 (Revised) (see mark-ups below). We have included the suggested additional paragraph as indicated in point 2 above:

“When the auditor’s report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor’s report on the summary financial statements shall, in addition to the elements in paragraph 14:

~~(e)-(a)~~ State that, as a result of the ~~adverse opinion or~~ disclaimer of opinion, it is inappropriate to express an opinion on the summary financial statements.

~~(d)-(b)~~ State that, as a result of the adverse opinion the accompanying summary financial statements are not consistent with (or a fair summary of) the audited financial statements of [...] in accordance with [describe established criteria].

~~(b)~~ (c) Describe the basis for that adverse opinion or disclaimer of opinion; and

~~(a)~~ (d) State that the auditor’s report on the audited financial statements contains an adverse opinion or ~~disclaimer of opinion~~ an **unmodified opinion**.

~~(e)~~ State that, as a result of the adverse opinion or disclaimer of opinion, it is inappropriate to express an opinion on the summary financial statements.

4. Refer to paragraph 24 on other information in documents containing summary financial statements. Overall, the auditor’s responsibilities in this regard are not clear and this may lead to divergence in practice.

a) Paragraph 24 only addresses the auditor’s responsibility in relation to other information in the context of whether there exists any material inconsistency between the other information and the summary financial statements. ISA 720 (Revised) has expanded the auditor’s responsibility in terms of the auditor having to evaluate whether the other information (in relation to the audited financial statements) is materially inconsistent with the financial statements concerned or the auditor’s knowledge obtained in the audit or otherwise appears to be materially misstated. Since the auditor of the summary financial statements already possesses audit knowledge about the audited financial statements, it would be appropriate to instill the principle that the auditor’s overall and collective knowledge about the entity and its financial statements should provide the context for evaluating the other information in documents containing summary financial statements.

b) The standard should be clarified in terms of what the appropriate action would be in the following circumstances (especially since this is a standalone standard and the aim is to achieve consistency with the Auditor Reporting Standards):

- If the auditor concludes that a material misstatement in the summary financial statements exists, the auditor shall consider the impact on the opinion of the summary financial statements in accordance with paragraph 19 and the impact on the auditor’s report on the audited financial statements in accordance with paragraph 13.
- If the auditor concludes that the other information needs to be revised, the auditor shall discuss the matter with management and, if appropriate, with those charged

with governance. If, at the time of reporting, an uncorrected material misstatement of the other information remains, the auditor shall describe the uncorrected material misstatement of the other information in the auditor's report.

- c) Also, we suggest introducing a separate section in the auditor's report on the summary financial statements that would provide transparency about the auditor's responsibilities relating to other information presented with the summary financial statements to ensure that there is clear understanding that the audit opinion does not cover the other information and that the auditor does not express any form of assurance conclusion thereon.
- d) We are of the view that the IAASB should give further consideration to providing an illustrative example that addresses:
- The prevalent use of other formats in which audited summary financial statements may be included, for example, the integrated report <IR>; and
  - The risk of association with other information and how this may be addressed in relation to the requirements contained in ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*.
  - The risk of the auditor being associated with other information may potentially be addressed by including the wording used in ISA 720 (Revised), Appendix 2, Illustration 1, in the related auditor's report of the summary financial statements in relation to the auditor's consideration of other information and related management's responsibility, taking into consideration that ISA 810 is a standalone standard.

5. Illustration 1 – affects all illustrative reports

We note that the statement of management's responsibility only mentions that of preparing a summary of the audited financial statements in accordance with the applicable criteria.

We question whether this statement of management's responsibility should include reference to the fact that management is also responsible for such internal control as management determines is necessary to enable the preparation of summary financial statements that are free from material misstatement, whether due to fraud or error when there are management controls in place in preparing the summary financial statements.

6. Illustration 1 – affects all illustrative reports

We recommend the following changes to the Auditor's Responsibility paragraph in the illustrative reports (shown as mark-ups below) to ensure that there is no misunderstanding as to the opinion which the auditor is expressing:

*"Auditor's Responsibility*

*Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements."*

7. Illustration 3:

For consistency in the treatment of the opinion-section in the auditor's report, the last line of the first paragraph in the opinion-section, "We expressed a qualified audit opinion on those financial statements in our report dated February 15, 20X2 (see below)", should be removed and combined with the wording that is already included in the second paragraph of the opinion-section. We propose that the second paragraph reads as follows (our suggested amendments are indicated by underlined text):

"In our opinion, the accompanying summary financial statements are consistent, in all material respects, with (or *a fair summary of*) those audited financial statements, on the basis described in Note X. However, since we expressed a qualified audit opinion on those audited financial statements in our report dated February 15, 20X2, the summary financial statements are misstated to the equivalent extent as the audited financial statements of ABC Company for the year ended December 31, 20X1."

Furthermore, we recommend the following changes to illustration 3 to more closely align with the form and content of the wording in Illustration 4 (shown as mark-ups below):

**"The Audited Financial Statements and Our Report Thereon**

In our report dated February 15, 20X2, we expressed a qualified audit opinion on the audited financial statements of ABC Company for the year ended December 31, 20X1.

~~The basis for our misstatement of the audited financial statements is described in our qualified audit opinion was [describe basis for qualified audit opinion] in our report dated February 15, 20X2. Our qualified audit opinion stated that [describe qualified audit opinion] is based on the fact that the company's inventories are carried in the statement of financial position in those financial statements at xxx..."~~

8. Illustration 4:

We suggest additional wording in the second paragraph of the Denial of Opinion section:

"Because of the significance of the matter discussed in *The Audited Financial Statements and Our Report Thereon* section of our report **below**, it is inappropriate to express ..."

9. Illustration 5:

We suggest the following change in wording for the second paragraph of the Adverse Opinion section:

"In our opinion, because of the significance of the matter discussed in the *Basis for*

*Adverse Opinion* section **of our report below**, the accompanying summary financial statements are not consistent ...”

10. Examples of matters that may require revision as part of a possible future project to perform a more comprehensive review and update of ISA 810:
  - a) The objectives of the auditor should be updated to represent more fully the objectives of an assurance engagement, consistent with revisions, in 2013, to the International Framework for Assurance Engagements and ISAE 3000 (Revised). For example, it should be clear that one of the auditor’s objectives is to obtain reasonable assurance about whether the summary financial statements are free from material misstatement, whether due to fraud or error.
  - b) The principles around applied criteria being either established by an authorised/recognised standards setting organisation, by law/regulation, or by management are already addressed in ISA 810 (par. A3- to A7) and are consistent with other assurance standards (and with the Framework). However, it may be appropriate to review and update these in the context of the concept of suitable criteria for an assurance engagement (and the characteristics of suitable criteria), as well as the condition that the criteria must be adequately made available to the intended users.
  - c) Similar to the approach taken in updating ISRE 2400 (Revised) and ISAE 3000 (Revised), as ISA 810 is seen as a standalone standard that is designed to address an engagement to report on summary financial statements, the following matters, among others, should be clearly addressed by such a standalone standard:
    - i. Ethical responsibilities.
    - ii. Quality control.
    - iii. Engagement acceptance, continuance considerations and agreeing to the terms of engagement.
    - iv. Determining and applying materiality.
    - v. A risk-based evidence gathering process (i.e. risk assessment and risk response).
    - vi. Evaluation of misstatements identified during the audit.
    - vii. Forming an opinion on the summary financial statements.
    - viii. Written representations.

**C. REQUEST FOR COMMENTS ON GENERAL MATTERS**

- 3. Preparers (including Small- and Medium-Sized Entities (SMEs)) and Users (including Investors and Regulators)— The IAASB invites comments on proposed ISA 810 (Revised) from preparers (particularly with respect to the practical impacts of the proposed amendments), and users (particularly with respect to the manner in which reference is proposed to be made to matters included in the auditor’s report on the audited financial statements).**

**Response:**

No comment.

- 4. Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the ISAs, the IAASB invites respondents from these nations to comment on the proposed ISA 810 (Revised), in particular, on any foreseeable difficulties in applying it in a developing nation environment.**

**Response:**

No comment.

- 5. Translations — Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed ISA 810 (Revised).**

**Response:**

No comment.

- 6. Effective Date — In line with the effective date of the new and revised Auditor Reporting standards, the effective date of the Proposed Limited Conforming Amendments to ISA 810 is for engagements to report on summary financial statements for periods ending on or after December 15, 2016**

**Response:**

We agree with the effective date.

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## Annexure – data collection and summary

### ISA 810 IN THE SOUTH AFRICAN CONTEXT

An integrated report is a concise communication about how an organisation’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.

In terms of the guidance letter issued by the Johannesburg Stock Exchange (JSE) on 27 June 2013: *“The JSE’s general approach to corporate governance in relation to the King Code on Corporate Governance for South Africa (the “King Code”) is that certain principles are mandatory with the balance being adopted on an “apply and explain” basis. Chapter 9 of the King Code which deals with Integrated Reporting and disclosure is not mandatory ... and can therefore be applied on an “apply or explain basis”.*

In addition, the JSE issued a guidance letter on 25 July 2011, requiring that any summary of financial statements must:

- a. Be prepared in accordance with the framework concepts and measurement and recognition requirements of IFRS and the AC 500 standards as issued by the Accounting Practices Board or its successor, and
- b. Must also as a minimum contain
  - i. The information required by IAS 34: Interim Financial Reporting (in other words the disclosure requirements, and
  - ii. A statement confirming that it has so been prepared.

References to ISA 34 below are in this context.

EY has conducted annual surveys<sup>1</sup> of Integrated Reports of the Top 100 Johannesburg Stock Exchange (JSE) listed companies by market capitalisation for the past three (3) years. Our interest in their survey in relation to the proposed International Standard on Auditing (ISA) 810, *Engagements to Report on Summary Financial Statements*, is connected directly to the trend that was noted in the latest 2015 EY Integrated Report Survey in comparison to the previous two years, 2013 and 2014.

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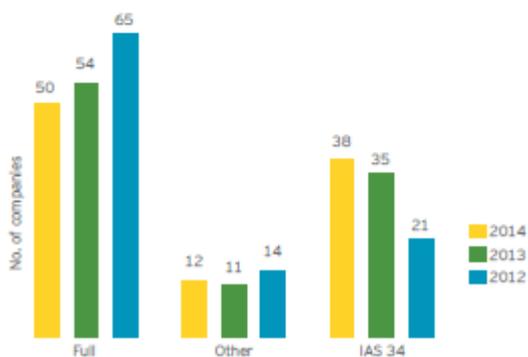
<sup>1</sup> [http://www.ey.com/Publication/wvLUAssets/ey-excellence-in-integrated-reporting-awards-2015/\\$FILE/ey-excellence-in-integrated-reporting-awards-2015.pdf](http://www.ey.com/Publication/wvLUAssets/ey-excellence-in-integrated-reporting-awards-2015/$FILE/ey-excellence-in-integrated-reporting-awards-2015.pdf)

## Extract from Page 21 of EY's Excellence in Integrated Reporting Awards

### How are companies dealing with the presentation of financial information in their integrated report?

There is a steady increase in the number of companies that are including only summarized financial statements in their integrated reports. We found that 50 companies included summarized financial statements in 2014, compared with 46 in 2013. Thirty-eight of the companies that presented summarized financial statements opted to present these in a format that complies with IAS 34. The remaining 12 chose a different presentation format. For example, by not presenting any financial statements but only highlighting key financial information in the financial review.

### Format of financial statements



The trend that we highlight is the decrease in the presentation and publication of full or complete statutory financial statements and an increase in the use of summarised financial statements in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. The consequence of this trend on the public interest and on the work of auditors is that the demand for the audit of a summary of financial information in relation to ISA 810 will increase.

We analysed data of the 38 companies that made the decision to present a summary of financial information in their <IR> reports in accordance with IAS 34. (The other 12 companies making up the 50 did not apply IAS 34).

The key questions that were considered to determine the level of compliance with ISA 810 were the following:

1. **Was the summarised financial information audited and was it audited in terms of ISA 810?**

The choice to have the summarised financial statements (SFS) audited lies with the JSE-listed company as there is no obligation to obtain a separate audit report on these statements in terms of paragraph 3.21(c) of the JSE listing requirements.

If an audit report is presented, the applicable audit standard that is required to be applied is ISA 810, *Engagements to Report on Summary Financial Statements*.<sup>2</sup>

<sup>2</sup> *Guide for Registered Auditors Reporting on Financial Information contained in Interim, Preliminary, Provisional and Abridged Reports required by the JSE Listings Requirements*, p67.

24 % of companies presented summarised financial statements (SFS) in their <IR> reports	
Three companies	Specifically stated SFS were not audited
Four companies	Indicated that SFS were “derived” or “extracted” from AFS
One company	Indicated that SFS were reviewed – outcome of review was not mentioned
One company	Indicated that AFS were the “basis” for the condensed financial statements

Where summarised financial statements are not audited, the following statement must be included in the summary financial statement in terms of the JSE listing requirements, paragraph 3.21(c): “*This abridged report is extracted from audited information, but is not itself audited.*”

**2. If the summarised information was audited, was the audit report included in the <IR> report?**

Twenty nine (29) of the 38 companies presented audited SFS in their <IR> reports. Six (6) of these listed companies did not include the auditor’s audit report with the audited SFS. In terms of paragraph 8.6 of the JSE listings requirements, “... *the report of the auditor need not be included in the published report ... If the report of the auditor is not included in the published report, the published report shall state that the report of the auditor is available for inspection at the company’s registered office*”.

This is in contravention of ISA 810 paragraph 25, which requires the auditor to include the related auditor’s report where audited summarised financial statements are included in a report.

76 % of companies that presented summarised financial statements (SFS) in their <IR> reports		
Independent audit was done in terms of ISA 810		
29	Twenty three companies	Audit report was included with SFS
	Six companies	Audit report was not included with SFS

ISA 810, paragraph 25, states that “*the auditor shall request management to include the auditor’s report in the document*” when the auditor becomes aware that the entity plans to state that the auditor has reported on the summarised financial statements in a document containing the summary of financial statements.

Paragraph A21 in ISA 810 also states that the auditor's action "*may include informing the intended users and other known third-party users of the inappropriate reference to the auditor*".

**There is therefore a need to address the possible missing or contradictory requirements between ISA 810 and the JSE listings requirements.**

3. **If the audit report was not included in the <IR> report, was it easily available to view?**

The six companies that did not include the auditor's audit report on the summary of financial statements in the <IR> report of the entity indicated that the audit report was available for review at the respective companies' registered offices, which is in compliance with paragraph 8.6 in the JSE listings requirements.

**Requirement in terms of ISA 810**

This option (of availability at the companies' registered office) is not an alternative option in terms of the requirements detailed in ISA 810.

**Addressing shortfalls**

The gap in meeting requirements of extant ISA810 suggests that a shortfall exists, which would need to be addressed by the role players. They should take into consideration the local regulatory requirements and the auditor's risk of association with the audited summary financial statement being included in a document without the accompanying auditor's report.