

March 30, 2015

Technical Director  
International Auditing and Assurance Standards Board (IAASB),  
529 5th Avenue 6th Floor  
New York, New York 10017  
USA

Dear Sirs/Mesdames,

**Re: Exposure Draft – ISA 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**

Thank you for the opportunity to comment on the above Exposure Draft (“ED”). We have reviewed the ED and have provided our responses to the comments requested by the IAASB below.

- 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.**

Consistent with our comments made to the *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs) ED*, we continue to have concerns relating to the inclusion of the proposed items.

Key Audit Matters (“KAMs”)

We understand that the following discussion is more critical for general purpose financial statements as the inclusion of KAMs in ISA 805 and ISA 800 reports is only required when obligatory by law. However, we do not agree that the introduction of KAMs will enhance the usefulness of the auditor’s reports issued in accordance with ISA 800 and ISA 805. By introducing KAMs there is a risk of overreliance on those matters by readers. Readers may ignore other aspects of a company’s financial statements when making investment related decisions. In addition, there is a risk that the inclusion of KAMs may be viewed by users of the financial statements as, essentially, a “soft qualification”.

KAMs are to be discussed with management and a mutual agreement is to be reached as to what is included. This may create tension between auditors and management. There is also a lack of specific guidance on what matters constitute KAMs, which may result in strained relationships or a potential for “auditor shopping” by clients.

Without sufficient examples of KAM wording, it is possible that each of the auditor’s, and the client’s, legal counsel may require inclusion of such numerous caveats and qualifying statements as to make the KAMs difficult to read and interpret. In addition, the lack of examples as well as the fact that KAMs may be voluntarily communicated, if not required by law or regulation, may result in significant diversity in practice.

The inclusion of KAM commentary would require significant involvement from senior audit engagement personnel, including engagement quality control reviewers. Additional commentary not only results in costs increasing but will require additional time on already tight reporting deadlines, which could ultimately affect the timely release of financial reports and information.

### Going Concern

We also have concerns with the inclusion of the going concern statement in the auditor's report issued in accordance with ISA 800 and ISA 805. The current practice of including an Emphasis of Matter paragraph only when there is material uncertainty identified with respect to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is much more effective at highlighting actual going concern issues to the users of the financial statements.

If every auditor's report includes a statement on going concern, which in almost all cases will not highlight any material uncertainties, it may, in effect, achieve the opposite of what the IAASB intended. Users will not take notice when material uncertainties with respect to going concern do exist and have been stated in the auditor's report.

### Disclosure of Engagement Partner's Name

We do not agree with the disclosure of the Engagement Partner's name in the auditor's report issued in accordance with ISA 800 and ISA 805 for audits of listed entities. Inclusion of the Engagement Partner's name will not provide any added benefit to the users of the financial statements and will not serve to create any increase in quality of audit engagement performance.

When an entity engages an auditor, it engages an audit firm and not an individual audit partner and therefore the opinion provided on the entity's financial statements is that of the firm and not the individual partner. This fact is particularly evident in that the audit evidence obtained to support the opinion is gathered by a team of individuals and not just the engagement partner. Although the engagement partner is ultimately responsible for the engagement, the policies and procedures followed by the engagement partner are developed and implemented by the firm and are overseen by regulatory bodies and professional accounting bodies that regularly assess the quality of audits performed by the firm.

From a practical perspective, disclosing the name of the engagement partner can expose that partner to privacy concerns and perhaps even to safety issues, such as from disgruntled shareholders or employees.

## **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.**

With the exception of our responses to the other questions posed by the IAASB, we believe that 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.

## **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, if KAMs are a required disclosure, we agree that KAMs should be voluntary for all entities under both proposed ISA 800 (Revised) and proposed ISA 805 (Revised). However, we reiterate our concern, as noted under Question #1, that allowing voluntary communication of KAMs, if not required by law or regulation, may result in significant diversity in practice.

- b. **Specific to proposed ISA 805 (Revised), whether respondents support the IAASB's proposed direction that reference to KAM that is communicated in the auditor's report on the complete set of financial statements be permitted in the ISA 805 auditor's report using an OM paragraph and how this has been illustrated in the ISA (see paragraphs 25–32). In particular, the IAASB would also welcome respondents' views about:**
- i. **The usefulness of the guidance in paragraph A23 in proposed ISA 805 (Revised) and the appropriateness of Illustration 3 in Appendix 2 to assist auditors in determining how to make a reference in the ISA 805 auditor's report to KAM that are communicated in the auditor's report on the complete set of financial statements; and**

We believe that the guidance provided in paragraph A23 in the proposed ISA 805 should clarify that it is only relevant if the auditor was also responsible for the audit of the complete set of financial statements. If this restriction is not included within ISA 805, we believe additional guidance should be included to address when the ISA 805 engagement auditor is not the same as the auditor for the complete set of financial statements. Would the auditor in such a situation refer to an auditor report issued by another auditor? What would happen in circumstances where the two auditors do not agree on what the actual KAMs are?

- ii. **In light of views on (i) and the Board's deliberations summarized in paragraphs 25–32, whether it is necessary to establish requirements in proposed ISA 805 (Revised) relating to a reference to KAM in the ISA 805 auditor's report either to promote consistent treatment in practice or expressly prohibit certain approaches (e.g., a reference only to relevant KAM in the auditor's report on the complete set of financial statements or the possibility of repeating the full description of a KAM).**

We believe for an auditor's report to be useful, the ISA 805 auditor's report should only refer to relevant KAMs in the auditor's report on the complete set of financial statements. The ISA 805 auditor's report should not include a full repetition of the KAMs presented in the auditor's report on the complete set of financial statements.

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.**

We do not believe that conforming amendments to extant ISA 810 are needed at this time.

In addition to the requests for specific comments above, the IAASB is also seeking comments on the general matter set out below:

- **Effective Date**— In line with the effective date of the new and revised Auditor Reporting standards, the effective date of:
  - i. **Proposed ISA 800 (Revised) is for audits of special purpose financial statements for periods ending on or after December 15, 2016; and**
  - ii. **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.**

We have no concerns with the effective date.

We are pleased to offer our assistance to the IAASB in further exploring issues raised in our response or in finding alternative solutions to meet the needs of financial statement users.

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Yours truly,

**MNP LLP**

*Jody MacKenzie*

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Director, Assurance Professional Standards

cc' Auditing Assurance Standards Board (AASB)



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