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Ms. Kathleen Healy
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017
USA

Re: IAASB 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*

Dear Ms. Healy,

BDO International Limited¹ (BDO) is pleased to have the opportunity to respond to the International Auditing and Assurance Standards Board (IAASB) Exposure Draft (ED) in respect of *ISA 800 (Revised) Special Considerations for Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* and *ISA 805 (Revised) Special Considerations for Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.

We remain supportive of the IAASB's goal of improving the communicative value of the auditor's report, in recognition of the significant demand for change from users of financial statements and the need for greater clarity about what an audit represents. In our view, these EDs are an appropriate extension of the changes made by the IAASB in respect of the new and revised Auditor Reporting standards, in particular ISA 700 (Revised), ISA 701, ISA 705 (Revised) and ISA 706 (Revised). As we noted in our submission letter on the Auditor Reporting standards dated 22 November 2013, the development of these EDs, combined with the proposed changes in respect of ISA 800 (Revised) and ISA 805 (Revised), are substantial steps forward in the journey to achieve meaningful change that will better enable users to obtain further insights into the risk based nature of audits.

We also agree with the IAASB's conclusion that it is in the public interest to develop separate EDs in respect of ISA 800 and ISA 805. We support the IAASB's view, promulgated in large part by these new EDs on ISA 800 (Revised) and ISA 805 (Revised), that any changes be limited to the reporting issues

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associated with such engagements and not be intended to substantively change the underlying premise of these types of audits.

The details of our suggestions, as well as our views, on the other aspects of the EDs are provided below in response to the specific questions posed.

- 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 broadly agree that the proposed enhancements as explained in paragraphs 10-32 of this Explanatory Memorandum (EM) are appropriate for those audits performed under the provisions of ISA 800 (Revised) and ISA 805 (Revised).

Repeating Requirements

We support the decision of the IAASB to retain the existing approach in respect of ISA 800 and ISA 805 not to repeat the reporting requirements in ISA 700 (Revised), ISA 701 and other ISAs. By not restating these requirements, the IAASB has made it clear that ISA 700 (Revised) provides the overarching reporting requirements applicable for auditor's reports; whereas, ISA 800 (Revised) and ISA 805 (Revised) provide additional requirements and application guidance.

Key Audit Matters (KAM)

Matters relating to the KAM are dealt with our response to question 3 of the ED below.

Going Concern

While we understand the IAASB's decision to apply the principles² established in ISA 570 (Revised) and ISA 700 (Revised) when addressing a material uncertainty related to going concern to ISA 800 and ISA 805 engagements, the amendments as currently drafted may cause practical application issues. This is particularly the case when the auditor of the financial statements covered by ISA 805 is not the auditor of the entity's complete set of general purpose financial statements.

For ISA 800 (Revised) engagements, when the auditor is reporting on a complete set of financial statements, the process of determining whether there is material uncertainty and disclosing this within the financial statements and modifying the auditor's report is generally appropriate; however, we note the clarification in ISA 800 (Revised)³, which indicates that the going concern basis of accounting may not be relevant in all cases, for example when financial statements have been prepared on a tax basis of accounting. There may be also be an issue in respect of the application of the requirement⁴ of ISA 805 (Revised) that any auditor's report on the complete set of financial statements that includes a material uncertainty related to going concern has this section repeated in the ISA 805 (Revised) auditor's report. In that regard, we can envisage

² Identified in paragraph 29, 33 (b) ISA 570 (Revised) and paragraph 38 (b) (iv) ISA 700 (Revised).

³ ISA 800 (Revised) ED, paragraph A16

⁴ ISA 805 (Revised) ED, paragraphs 15 and A24

instances, within certain jurisdictions that could give rise to potential inconsistencies. Some examples are outlined below:

- The auditor's report on the complete set of financial statements of a not-for-profit entity under ISA 700 includes an emphasis of matter paragraph with respect to going concern. For the same entity, the auditor is also engaged to prepare an ISA 805 (Revised) report, providing specific assurance in respect of certain receipts and disbursements (e.g., in the case of a grant-awarding body or governmental agency). In that case, the auditor would be required to include in the ISA 805 (Revised) report that there is a going concern matter even though this is of no consequence to the engaging party with respect to the transactions being reported on.
- Two entities have a requirement for an ISA 805 (Revised) report and both are receiving and spending the same amount of funds from a grant-awarding body or governmental agency. If one of the entities requires an audit on its complete set of financial statements and the other one does not, the recipient of both ISA 805 (Revised) reports is going to receive two very different reports if only one of the entities is required to make a disclosure based on going concern matters identified in the ISA 700 (Revised) auditor's report.

Neither scenario outlined above is particularly useful from a user perspective. We believe the above scenarios are not assisted by the current wording contained within paragraph 15 of ISA 805 (Revised) which states:

When a "Material Uncertainty Related to Going Concern" section that highlights the existence of a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, or a statement that describes an uncorrected material misstatement of the other information, is included in the auditor's report on the entity's complete set of financial statements, the auditor shall:

- (a) Determine the effect that this may have on the auditor's report on a single financial statement or on a specific element of those financial statements; and*
- (b) Include the "Material Uncertainty Related to Going Concern" section, or when deemed appropriate the statement that describes an uncorrected material misstatement of the other information in the auditor's report on the single financial statement or on the specific element of a financial statement, accordingly.*

We believe that this requirement as it is currently drafted could lead to confusion on the part of those auditors applying parts (a) and (b). An auditor applying the provisions of part (a) may conclude that there is no effect on the auditor's report under ISA 805 (Revised) in respect of the Material Uncertainty Related to Going Concern; however, part (b) implies that a "Material Uncertainty Related to Going Concern" section is required.

We also have concerns with respect to paragraph A24 in ISA 805 (Revised) which states that 'matters relating to going concern are deemed to always be relevant to the users' understanding of the financial statement or the specific element or the related auditor's report.' We agree that in the context of a complete set of financial statements which contains assets and liabilities yet to be realized and the application of valuation concepts, the going concern presumption is inherently applicable; however, as noted earlier, oftentimes in the case of ISA 805 (Revised) audit reports

there may be specific matters being reported on that do not relate to the future recoverability of assets. Accordingly, we do not believe that the blanket approach to reporting matters, as required by requirement 15 (part b) is always appropriate and we would ask the IAASB reconsider whether part (a) of requirement 15 should take precedence or form the mainstay of the requirement.

Independence Disclosure

We support the proposed requirement to disclose the source(s) of independence and other ethical requirements in the auditor's report. In our submission to the IAASB on ISA 700 (Revised), we recommended that these disclosures refer to both the national requirements of the entity's auditor as well as the IFAC code of ethics. Although we are of the view that both elements should be disclosed, now that ISA 700 (Revised)⁵ has been issued we also appreciate the need for consistency with respect to ISA 800 (Revised) and ISA 805 (Revised) engagements.

Inclusion of Partner's Name in Auditor's Report

ISA 700 (Revised) requires the inclusion of the partner's name in the auditor's report and as we noted at the time of submission of our comment letter we remain of the view that we do not believe this disclosure will necessarily lead to an improvement in audit quality. We recognize that some jurisdictions currently require a personal signature and name of the engagement partner on the audit report; however, we believe that due to the differences in legal environments, the ultimate decision on disclosure should be left to the local jurisdiction. We do, as previously stated, agree with the "harm's way exemption," recognizing that it would be rare. However, in seeking to make conforming amendments to ISA 800 (Revised) and ISA 805 (Revised) we support the IAASB's intention to ensure alignment with the changes brought about by ISA 700 (Revised).

Opinion Section followed by Basis for Opinion Section

We support the IAASB's decision to apply consistent formats in respect of the ordering of information in the auditor's report as outlined in ISA 700 (Revised)⁶. We believe that in the case of ISA 800 (Revised) and ISA 805 (Revised) providing audit report formats which are similar in structure to those required by ISA 700 (Revised) promotes user understanding of the information being provided.

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

We agree with striving for consistency in the information provided to users across all audit reports and we support the alignment of ISA 800 (Revised) and ISA 805 (Revised) audit reports with those prepared under ISA 700 (Revised) in respect of the description and responsibilities sections.

⁵ ISA 700 (Revised), Requirement 28 (c) "Includes a 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. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants"

⁶ ISA 700 (Revised), paragraphs 23 and 28

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 respect to the illustrative examples in proposed ISA 800 (Revised) we would ask that the IAASB consider including some scenarios for situations when:

- the auditor has identified a material uncertainty regarding going concern
- management has the ability to choose the financial reporting framework.

Additionally, we would like to see further report examples where the consequences of different types of qualifications, emphasis of matter, key audit matter(s) and material uncertainty regarding going concern in an audit report could be shown placed in the context of an ISA 805 (Revised) audit report.

The table included within paragraph 10 of the Explanatory Memorandum and labeled *Overview of the Enhancement Addressed by the New and Revised Audit Reporting Standards and Their Applicability to ISA 800 and ISA 805 Engagements* is particularly helpful to users of these newly revised ISAs. We recommend that when ISA 800 (Revised) and ISA 805 (Revised) are finally approved for release, that the Basis of Conclusions drafted by IFAC staff includes an updated version of this table.

Finally, and in respect of additional guidance, we suggest that consideration be given to providing limited guidance for those relatively rare scenarios when auditors that are providing a report under ISA 805 are not the auditor of the entity's complete set of financial statements under ISA 700 (Revised). This potential guidance might include the steps that an auditor of an ISA 805 report would need to take in order to obtain the appropriate information and then determine the extent to which reference should be made in the ISA 805 (Revised) report about the fact that the ISA 700 (Revised) report has been prepared by another auditor.

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 IAS 800 (Revised) and proposed ISA 805 (Revised), unless required by law or regulation?

We agree with the IAASB's decision to make communication of the KAM voluntary, given the range of special purpose frameworks to which the proposed ISA 800 (Revised) and ISA 805 (Revised) might apply including those that may be established 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 reports 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

- 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).

Notwithstanding our support for the voluntary nature of the KAM in the context of an ISA 805 (Revised) engagement, during our review of the Explanatory Memorandum and comparison with ISA 805 we identified a potential inconsistency which might merit further consideration by the IAASB. ISA 800 (Revised) and ISA 805 (Revised) are both clear that when key audit matters are communicated in the auditor's report on special purpose financial statements or on a single financial statement, that "...ISA 701 applies in its entirety." However, the Explanatory Memorandum accompanying ISA 805 (Revised) noted that "...it would be possible, based on how its proposed guidance in paragraph A23 of proposed ISA 805 (Revised) is drafted, for auditors to make a more specific (i.e. targeted) reference to KAM in the auditor's report on the complete set of financial statements." Indeed, the IAASB EM then goes on to provide an alternative whereby an auditor could choose to refer only to relevant KAMs that are communicated in the auditor's report on the complete set of financial statements (paragraph 31 of EM).

We understand the importance of providing flexibility in how these matters are communicated to users; however, on balance we support a more targeted approach and would ask that the alternative example identified within paragraph 31 of the EM be considered for inclusion as additional guidance when ISA 805 (Revised) is finalized. This more targeted approach to outlining KAM matters is helpful to users because it:

- Provides users with information on those matters of immediate concern to the user and in the context of the ISA 805 (Revised) single financial statements, specific elements, accounts or items of a financial statement; and
- Mitigates the concern noted in paragraph A23 of ISA 805 (Revised) about restrictions on the availability or access to the complete set of financial statements.

To alleviate possible user confusion, the KAM section could be renamed 'Key audit matters mentioned in the company's complete financial statements' rather than 'Other Matters'. We believe that this change might aid clarity when users are reading an ISA 805 (Revised) auditor's report.

- 4) The IAASB would also welcome feedback on whether conforming amendments to extant ISA 810 are needed at this time, if so, what approach could be taken to incorporate the enhancements resulting from the new and revised Audit Reporting standards.

ISA 810 Confirming Amendments Considerations

We support the decision made by the IAASB not to make conforming amendments in respect of ISA 810 *Engagements to Report on Summary Financial Statements*, and to prepare a detailed review of

this Standard to identify conflicts or inconsistencies with ISA 805 (Revised) and ISA 805 (Revised). We note that there is a substantial difference between being asked to express an opinion on the financial statements as per ISA 700 (Revised) and being engaged to report on the derivation of the summary financial statements from the audited financial statements. As a consequence, our view is that given the different issues inherent in a report on summary financial statements that it would not be appropriate to incorporate the enhancements resulting from the new and revised Audit Reporting Standards at this point in time and without further consideration of this matter.

Preparers (including Small- and Medium-Sized Entities (SMEs)), and Users (including Regulators)

We support the changes proposed by ISA 800 (Revised) and ISA 805 (Revised) and believe that, subject to our earlier comments when reporting on material uncertainties in respect of going concern, the newly revised ISAs will enhance the communicative value of SME auditor's reports from a user perspective.

Developing Nations

Within our international network, we have a number of member firms operating in developing nations. We recognize that in many of these nations national frameworks and adoption of ISAs are still in their infancy and, as a consequence, believe that where this is the case, the importance of clarity and useful Application Guidance becomes essential. Subject to the additional Application Guidance suggested earlier in our response, we believe that as currently drafted ISA 800 (Revised) and ISA 805 (Revised) provide sufficient content to help support preparers and users in these nations.

Translations

We have long supported the IFAC efforts to make ISAs and other IFAC pronouncements accessible to users through effective and timely translation. Many of the auditing terms and concepts contained in ISA 800 (Revised) and ISA 805 (Revised) are present in other ISAs so at this stage we do not foresee any further difficulties in respect of translation.

Effective Dates and Early Adoption

We agree with the effective dates and the option of early adoption for proposed ISA 800 (Revised) and ISA 805 (Revised) as proposed in the ED.

We appreciate the opportunity to comment on ISA 800 (Revised) and ISA 805 (Revised) EDs and hope that our comments and suggestions will be helpful as you continue your commitment to improving the communicative value in respect of audit reporting.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,
BDO International Limited

Wayne Kolins
Global Head of Audit and Accounting