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Our ref SS/288
Contact Sylvia Smith

2 November 2015

Dear Sirs

Exposure Draft, *Proposed International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements*

We appreciate the opportunity to respond to the International Auditing and Assurance Board's ("IAASB" or "Board") Exposure Draft: *Proposed International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements*, dated August 2015 (the "Exposure Draft" or "ED"). We have consulted with, and this letter represents the views of the KPMG network.

Our overarching comments are set out below. The appendix to this letter provides our responses to the specific questions posed in the Exposure Draft.

We are supportive of the proposed changes to ISA 810, *Engagements to Report on Summary Financial Statements*. Although this is a stand-alone standard, the scope of which does not require the application of the ISA 100-700 series (adapted as necessary) to an engagement to report on summary financial statements in accordance with ISA 810, we concur with the Board's proposal to make amendments to the standard that conform with certain of the enhancements to the Auditor Reporting standards that may be relevant to users of an ISA 810 auditor's report.

We agree with this limited scope of proposed amendments. We do not consider that the amendments need to be broader in order to fully align with the new and revised Auditor Reporting standards, given the particular scope and purpose of an audit engagement performed in accordance with ISA 810, as well as the fact that ISA 810 is a stand-alone auditing standard. For example, we agree with the approach not to apply the concept of a key audit matter (KAM) as described in ISA 701 to an engagement performed in accordance with ISA 810.

In particular, we are supportive of the proposed changes to paragraph 17, as we believe that the IAASB has achieved an appropriate balance between providing users of summary financial statements with greater transparency in respect of drawing their attention to important information set out in the auditor's report on the complete set of financial statements from which the summary



financial statements are derived, that may be of particular relevance to such users, which is clearly in the public interest, without potentially misleading such users as to the scope and purpose of an ISA 810 engagement. Instead, the standard retains its premise that the summary financial statements and the auditor's report thereon are intended to be read in conjunction with the complete set of financial statements from which the summary financial statements are derived, and the auditor's report on those financial statements, which provides any additional context necessary.

Furthermore, we consider that the proposed conforming amendments do not alter the underlying nature and objective of an ISA 810 engagement. In particular, we believe the IAASB has maintained the flexibility of the extant standard, which is important in order to support the adaptation/ modification of ISA 810 by national standard setters to take account of applicable jurisdictional requirements and practices.

Please refer to our comments in the appendix for additional detail as to why we support the IAASB's approach, as well as recommendations for further enhancements to help achieve the objectives of the proposed changes.

We do not consider that there is merit in exploring more extensive revision of the standard at this time. We do not believe it would be appropriate to delay the proposed conforming amendments whilst such considerations take place. Additionally, in light of the limited circumstances in which ISA 810 is used, and in the absence of fundamental issues in general that may affect its use, we do not consider that such a project would be the most appropriate use of IAASB resources at this time.

Please contact Sylvia Smith at +44 (0)20 7694 8871 if you wish to discuss any of the issues in this letter.

Yours faithfully

KPMG IFRG Limited

KPMG IFRG Limited

cc: Jean Blascos

1. Appendix 1 - Specific Questions Posed by IAASB

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)

Amendments to address the “information gap” in respect of a material uncertainty related to going concern and a material misstatement of other information

We agree with the Board that certain of the changes made to the Auditor Reporting standards (i.e. that a material uncertainty related to going concern or material misstatement of other information are now required to be highlighted in separate sections of the auditor’s report, as opposed to being addressed in an Emphasis of Matter (EOM) or Other Matter (OM) paragraph) may result in an “information gap” in the ISA 810 auditor’s report. This is because extant ISA 810 paragraph 17 discusses making reference only to EOM and OM paragraphs in the auditor’s report on the complete set of financial statements from which the summary financial statements are derived, and not these additional, specific sections.

Accordingly, we consider it appropriate to extend paragraph 17 to also include reference to these sections since this is in accordance with the underlying intention of paragraph 17 to draw the attention of users of the auditor’s report on summary financial statements to important information in the auditor’s report on the complete set of financial statements, that would be of particular relevance to them.

We highlight that the changes to the Auditor Reporting standards were developed in response to calls for greater transparency, both in terms of giving increased prominence to significant matters such as going concern issues and material misstatements, as well as providing greater insight into the matters that were of most significance in the audit of the complete set of financial statements of a listed entity. Such financial statements are prepared to meet the common financial information needs of a broad range of users, who may not have access to the auditors or a clear understanding of the key features of the audit engagement, including those that were the most significant and generated the most robust dialogue between those charged with governance, and the auditor.

We therefore consider it important to draw attention to these matters in the ISA 810 auditor’s report, in order to be able to meet the same objectives of clarity and transparency, for the following reasons:

- In the limited circumstances in which summary financial statements are prepared and audited in accordance with ISA 810 (adapted in many cases by a national standard setter), the intended audience is often similarly broad and may not have access to the auditors, for example, when the summary financial statements are prepared for inclusion in an offering document;

- The standard provides for the addressee of the ISA 810 auditor’s report to be different to the addressee of the auditor’s report on the complete set of financial statements, therefore it is of particular importance in this scenario that the critical matters included in paragraph 17 of the standard are highlighted in the ISA 810 auditor’s report.

We understand that both extant paragraph 17 as well as the proposed revisions to that paragraph appear to be based on the premise that the matters referred to would almost always be relevant to a user of the summary financial statements. We believe this is appropriate, in particular, because ISA 810 paragraph 4c defines the summary financial statements as providing a “structured representation consistent with that provided by the [complete set] of financial statements” and also since ISA 810 paragraph 12 states that the summary financial statements, when dated later than the date of the auditor’s report on the complete set of financial statements, do not reflect the effects of subsequent events.

In relation to the statement in the auditor’s report on the complete set of financial statements that describes an uncorrected material misstatement of the other information accompanying those financial statements, we consider that such a statement may be relevant to the users of the summary financial statements, and therefore it is appropriate that this matter be addressed by paragraph 17.

However, the proposed approach may be confusing to a user if the same “other information” does not accompany the summary financial statements, and, in particular, if a different set of “other information” accompanies the summary financial statements, for example, if these are issued at a later date, and included in an Offering Document.

Accordingly, we recommend that paragraph 17 include a requirement for the auditor to instead determine the effect that this statement may have on the auditor’s report on the summary financial statements, and to include a reference to this statement when deemed appropriate, similar to the requirement set out in proposed ISA 805.15 [Revised].

Amendments to refer to the communication of key audit matters

We support the proposed inclusion of the requirement, in paragraph 17, for the ISA 810 auditor’s report to state that the auditor’s report on the complete set of financial statements includes communication of key audit matters. This is in accordance with the intended objective of highlighting important aspects of that auditor’s report which may be of particular relevance to users of the summary financial statements and the ISA 810 auditor’s report.

We agree with the proposed method to make reference to these matters, i.e. to include a statement to this effect but not to require the auditor to further describe these in the ISA 810 auditor’s report itself. We consider this approach appropriate in order to draw a reader’s attention to the fact that key audit matter(s) have been communicated, but not to provide further detail as this could potentially suggest that the nature and objective of the ISA 810 engagement is broader than intended, which may mislead users.

Accordingly, we agree with the material in A15 which explicitly clarifies that the auditor is not required to provide further detail, whilst not precluding an auditor from providing additional information. We recognise the Board's intention to allow the auditor to exercise professional judgment in determining how best to communicate regarding these key audit matters in a manner that the auditor considers will be of most benefit to users of the ISA 810 auditor's report. We are also supportive of this intended flexibility since we believe it will help to avoid potential conflict between ISA 810 and additional requirements that may be imposed by certain national setters.

Notwithstanding the above, we are concerned that, as drafted, this may give rise to unintended consequences in practice. For example, in accordance with the proposals, auditors may repeat descriptions of key audit matters or make specific reference to certain individual matters considered to be of most relevance. These practices may be misleading to users as they may be encouraged to consider information out of context, or place undue emphasis on certain information. Users may also misunderstand the nature and purpose of the ISA 810 (Revised) audit engagement.

We therefore suggest that A15 be enhanced to explain why the auditor is not required to include detailed information and to state that "ordinarily" a succinct reference is preferable. Such clarification could elaborate that there may be circumstances when the auditor considers it appropriate to include further information and that in such circumstances the auditor would need to exercise professional judgement in this regard. This would both clarify the IAASB's preferred approach and would set out principles that auditors may apply, whilst avoiding being overly prescriptive.

Other Proposed Changes to Align ISA 810 with ISA 700 (Revised)

We are supportive of the amendments to align the layout of the illustrative auditor's reports on summary financial statements with those of ISA 700 (Revised), as we believe such symmetry is beneficial and would help to provide greater clarity to users of the auditor's report. In particular, we support the upfront placement of the opinion.

We concur with the Board's decision not to mandate the ordering of certain elements, and we agree with the deletion of the wording "An introductory paragraph that..." in paragraph 14, to avoid the implication of a required order.

We also consider it appropriate not to require the use of specific headings, as we believe this approach is consistent with the different scope and purpose of an engagement performed in accordance with ISA 810, and also continues to facilitate modification of the standard by national standard setters across a number of jurisdictions.

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

We recommend that the proposed revised standard introduce a requirement to include, in the ISA 810 auditor's report, a statement about the auditor's independence and other relevant ethical responsibilities, as well as disclosure of the name of the engagement partner in respect of the specific engagement to report on summary financial statements of listed entities, in order to align with the Auditor Reporting standards. We consider this appropriate since the auditor's report clearly states that it is the report of the independent auditor, and furthermore, because the standard is premised on the fact that the auditor in respect of the summary financial statements is also the auditor of the complete set of financial statements from which these are derived. This is because of the assurance skills and techniques that the auditor will need to apply in order to determine whether the summary financial statements are consistent with [or provide a fair summary of] in all material respects, the audited financial statements, and therefore it is important to acknowledge the critical attributes of independence, and other ethical qualities, that the auditor will bring to bear in the specific context of the ISA 810 engagement.

3. 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

We agree with the proposed effective date of December 15, 2016, as we consider it appropriate that this date is aligned with the effective date of the new and revised Auditor Reporting standards.