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Our ref SS/288  
Contact Sylvia Smith

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Dear Sirs

**Exposure Draft, Proposed ISA 800 (Revised), and Proposed ISA 805 (Revised),**

We appreciate the opportunity to respond to the International Auditing and Assurance Board's ("IAASB" or "Board") Exposure Draft: 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* dated January 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.

**Communication of Key Audit Matters**

We agree with the IAASB that certain of the recent enhancements to the Auditor Reporting standards also should apply to engagements performed in accordance with ISA 800 (Revised) and ISA 805 (Revised). However, we have concerns with the proposal to apply the concept of a "key audit matter" as described in ISA 701 to these engagements. The concept of a "key audit matter" was developed in response to calls for greater transparency in respect of matters that were of most significance in the audit of the complete set of general purpose financial statements of a listed entity, which are prepared to meet the common financial information needs of a broad range of users. These users do not necessarily have the same access to auditors as users of the special purpose financial statements/information envisaged by ISA 800 and ISA 805.

Engagements within the scope of ISA 800 and ISA 805 frequently are performed for a particular and limited audience, in order to meet their specific financial information needs; indeed in many cases the use and distribution of the auditor's report is formally restricted to such intended users. As a result, the user group can be expected to represent an informed readership with better access to the auditor and a clearer understanding of the key features of the engagement, including those areas that were the most significant and generated the most robust dialogue with the auditor.

Additionally, the new and revised Auditor Reporting standards have been developed in light of the engagement circumstances of a complete set of general purpose financial statements, which include the premise that those charged with governance are responsible for overseeing the preparation of the financial statements. Communication with those charged with governance provides the platform for the determination of the key audit matters that the auditor intends to communicate in their report. However, as a result of the different nature and purpose of audits performed in accordance with ISA 800 and ISA 805, the concepts underpinning these communication requirements may not be relevant or easily transposed to such audits.

Accordingly, we do not believe that the concept of a key audit matter envisaged by ISA 701 is relevant to audits performed under ISAs 800 and 805. These ISAs already enable auditors to communicate matters that they believe would be of interest to users of the financial statements and their reports via an Emphasis of Matter or Other Matter paragraph. In the circumstances of ISA 800 and ISA 805 audits, we consider these existing provisions fit for purpose because they allow auditors to exercise their professional judgement in deciding how best to communicate matters of relevance in view of the circumstances of the engagement.

In respect of legal and regulatory requirements in some jurisdictions to communicate key audit matters in an ISA 800 or ISA 805 auditor's report, those requirements would address the approach to be taken.

### **Consideration of going concern**

We acknowledge the statements in both ISA 800 (Revised) and ISA 805 (Revised) that the going concern basis of accounting may not be relevant to certain financial statements prepared in accordance with a special purpose framework. However, we are concerned that, as drafted, auditors may be encouraged to conclude inappropriately as to the non-applicability of going concern considerations. Accordingly, we recommend adding a requirement for the auditor to assess the relevance of the going concern basis of accounting in the circumstances of the engagement.

Additionally, we suggest that the Board amend the requirement set out in paragraph 15 of proposed ISA 805 (Revised) that 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 is included in the auditor's report on the complete set of general purpose financial statements, that section is included in the auditor's report on the single financial statement or on the specific element thereof. Instead we suggest that the auditor be required to consider the effect that this section may have on the ISA 805 auditor's report, similar to the proposed approach in respect of a statement that describes an uncorrected material misstatement of the other information.



The IAASB states that it believes that such a section would always be relevant to users' understanding of the ISA 805 engagement. However, we consider there are circumstances in which such a section would not be relevant, for example, when a single financial statement or specific element thereof is prepared at a later date than the complete set of general purpose financial statements, and the matter which gave rise to the material uncertainty related to going concern no longer exists.

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

## **Appendix – Responses to Specific Questions Posed by IAASB**

- 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 ED. 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 agree with the IAASB that certain of the recent enhancements to the Auditor Reporting standards also should apply to engagements performed in accordance with ISA 800 (Revised) and ISA 805 (Revised), in particular, in relation to the consideration of going concern.

We are supportive of the approach to retain the current premise that the reporting requirements of the ISA 700 series of standards are not repeated in ISA 800 (Revised) and ISA 805 (Revised) and we concur that instead these standards will continue to address how certain of those requirements are to be applied in the special circumstances of ISA 800 (Revised) and ISA 805 (Revised) engagements.

- 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 (Revised) and ISA 805 (Revised) engagements.***

Notwithstanding our comments regarding KAMs, we consider the guidance in the proposed standards will be helpful to auditors to enable them to appropriately apply certain of the new and revised Auditor Reporting standards to audit engagements performed in accordance with ISA 800 (Revised) and ISA 805 (Revised).

We set out below suggestions for further enhancements to the guidance in respect of each standard.

### **Proposed Changes to ISA 800 (Revised)**

An entity that prepares special purpose financial statements may also prepare a complete set of general purpose financial statements that are also subject to audit. We believe that, although the special purpose financial statements are prepared on a standalone basis, certain information in the general purpose financial statements may be relevant to the users of the special purpose financial statements, as follows:

- A material uncertainty related to going concern section

We consider that when a material uncertainty related to the going concern section is included in the entity's complete set of general purpose financial statements, such a

section may also be relevant to a user of special purpose financial statements, even when going concern considerations are not specifically addressed by the special purpose framework.

Accordingly, we recommend adding a requirement for the auditor to consider the effect that this section may have on the ISA 800 auditor's report, similar to the approach proposed in ISA 805 (Revised) in respect of a statement that describes an uncorrected material misstatement of the other information.

Further to the above, we acknowledge the Board's statement in paragraph A16 that there may be some financial statements prepared in accordance with a special purpose framework for which the going concern basis of accounting is not relevant. We understand the Board's position that in such circumstances, neither ISA 570 (Revised), nor the requirements in ISA 700 (Revised) related to the description in the auditor's report of the respective responsibilities of management and the auditor relating to going concern, are applicable.

However, we are concerned that, as drafted, this paragraph may result in auditors inappropriately concluding that going concern considerations are not applicable in an audit engagement performed in accordance with ISA 800 (Revised). To address this, we recommend adding a requirement for the auditor to assess the relevance of the going concern basis of accounting in the circumstances of the engagement.

- A statement that describes an uncorrected material misstatement of the other information in the auditor's report

As above, such a statement may be relevant to users of special purpose financial statements. Accordingly, we recommend adding a requirement for the auditor to determine the effect that this may have on the ISA 800 (Revised) auditor's report and to include the statement when deemed appropriate, similar to the requirement set out in ISA 805.15.

### **Proposed Changes to ISA 805 (Revised)**

We refer to our comment above regarding the relevance of the going concern basis of accounting to a special purpose financial reporting framework. As above, we believe that ISA 805 (Revised) would benefit from a requirement for the auditor to assess the relevance of the going concern basis of accounting in the circumstances of the engagement.

### **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?*

***(b) Specific to proposed ISA 805 (Revised), whether respondents support the IAASB’s proposed direction that reference to KAM that are 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 of the Explanatory Memorandum).***

***In particular, the IAASB would also welcome respondent’s 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;***
- (ii) In light of views on (i) and the Board’s deliberations summarized in paragraphs 25-32 of the Explanatory Memorandum, 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 have concerns with the proposal to apply the concept of a “key audit matter” as described in ISA 701 to these engagements for the following reasons:

- The concept of a “key audit matter” was developed in response to calls for greater transparency in respect of matters that were of most significance in the audit of the complete set of general purpose financial statements of a listed entity, which are prepared to meet the common financial information needs of a broad range of users. These users do not necessarily have the same access to auditors as users of the financial statements/information envisaged by ISA 800 and ISA 805.
- Engagements within the scope of ISA 800 and ISA 805 frequently are performed for a particular and limited audience, in order to meet their specific financial information needs; indeed in many cases the use and distribution of the auditor’s report is formally restricted to such intended users. As a result, the user group can be expected to represent an informed readership with better access to the auditor and a clearer understanding of the key features of the engagement, including those areas that were the most significant and generated the most robust dialogue with the auditor.

- The new and revised Auditor Reporting standards have been developed in light of the engagement circumstances of a complete set of general purpose financial statements, which include the premise that those charged with governance are responsible for overseeing the preparation of the financial statements. The communication with those charged with governance provides the platform for the determination of the key audit matters that the auditor intends to communicate in their report. However, as a result of the different nature and purpose of audits performed in accordance with ISA 800 and ISA 805, the concepts underpinning these communication requirements may not be relevant or easily transposed to such audits.

Accordingly, we do not believe that the concept of a key audit matter envisaged by ISA 701 is relevant to audits performed under ISA 800 and ISA 805. These ISAs already enable auditors to communicate matters that they believe would be of interest to users via an Emphasis of Matter or Other Matter paragraph. We consider that in the circumstances of ISA 800 and ISA 805 audits, these provisions are fit for purpose because they allow auditors to exercise their professional judgement in deciding how best to communicate such matters in view of the circumstances of the engagement.

In respect of legal and regulatory requirements in some jurisdictions to communicate key audit matters in an ISA 800 or ISA 805 auditor's report, we consider that those requirements would address the approach to be taken.

***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 are supportive of the IAASB's decision not to consider consequential amendments to ISA 810 at this time, given the nature of audit engagements addressed by ISA 810 and the fact that this is a standalone 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 performed in accordance with ISA 810.

***Other Issues – Proposed effective Date***

We agree with the proposed effective date of December 15, 2016 for both ISA 800 and ISA 805.

We highlight that the first page of proposed ISA 800 (Revised) on page 17 of the ED refers to an effective date of December 31, 2016 for that standard. We believe this is an error and recommend that this is corrected.