

**Proposed International Standards on Auditing:
ISA 800 (Revised) Special Considerations – Audits of
Financial Statements Prepared in Accordance with
Special Purpose Frameworks
ISA 805 (Revised) Special Considerations – Audits of
Single Financial Statements and Specific Elements,
Accounts or Items of a Financial Statement**

and

Proposed Conforming Amendment to Another ISA

An Exposure Draft issued by
the International Auditing and Assurance Standards Board

Comments from ACCA
21 April 2015

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ACCA welcomes the opportunity to comment on the Exposure Draft: Proposed International Standards on Auditing: 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* and *Proposed Conforming Amendment to Another ISA* issued by the International Auditing and Assurance Standards Board (IAASB).

GENERAL COMMENTS

We note that the proposed amendments are limited to reporting and are not intended to substantively change the underlying premise of these audits; while we limit the scope of our comments accordingly, we have concerns that some matters affected by the reporting changes will have wider implications and require eventual change to the standards.

We are pleased to see the IAASB updating these ISAs following the recent improvements made to reporting on full general purpose financial statements. It is important to clarify the impact of these enhancements on those audits that are within the scope of ISA 800 or ISA 805.

In the main, we believe that the proposed amendments are appropriate. We are concerned, however, that circumstances where key audit matters (KAM) are reported have not been fully considered. We also question whether the scope of ISAE 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* needs clarification in the context of the need for alternative assurance engagements when an audit under ISA 805 is not practicable.

Reporting key audit matters under ISA 805

An ISA 805 engagement may involve the communication of KAM if required by law or regulation, or if done on a voluntary basis. Paragraph A19 explains the applicability of ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* but provides no further guidance. The illustrations of reports in Appendix 2 do not include such KAM. We suggest that guidance on KAM in relation to ISA 805 audits should be provided unless such circumstances are considered to be rare, in which case the application material (or material issued with the standard) should state that such circumstances are not dealt with in the standard.

While this is a general concern, it is particularly relevant to the disclosure referring to the KAM in the auditor's report on the complete set of financial statements dealt with in our answer to question 3 below.

We have a similar concern in relation to engagements where the auditor is not also the auditor on the full financial statements but nevertheless concludes that the ISA 805 audit is practicable. Users would, we expect, be entitled to equivalent reporting and hence value from the ISA 805 engagement whether or not the auditor is also the full financial statement auditor. The updating of existing requirements that apply only where the ISA 805 auditor is also the auditor of the full financial statements should not be the only amendment. We deal with this issue further in our answer to question 3 below.

Related uncertainty over the scope of ISAE 3000

If a practitioner concludes that the audit of a single financial statement or of a specific element of those financial statements in accordance with ISAs is not practicable, ISA 805 suggests that 'the auditor may discuss with management whether another type of engagement might be more practicable.'¹

If management wishes to commission an assurance engagement other than an audit, the practitioner is required (if ISAE 3000 is mandatory in the particular jurisdiction) to use ISAE 3000. An assurance engagement is not permitted to be carried out without being in accordance with a standard and if a standard is used it must be ISAE 3000.

ISAE 3000 is for use on engagements other than 'audits or reviews of historical financial information, as described in the International Framework for Assurance Engagements (Assurance Framework)'.² This scope does not say that it is an alternative to the use of ISAs. Indeed where the use of ISAs is not prescribed by statute, the scopes of ISAs and of ISAE 3000 have been designed to avoid allowing practitioners to choose to use ISAE 3000 instead of ISAs on a 'voluntary audit of historical financial statements'.

¹ Paragraph A6 of proposed ISA 805.

² Paragraph 5 of ISAE 3000.

The Assurance Framework is not authoritative. It describes an audit of historical financial information only in the overall context of assurance engagements.³

There is no link between the standards required to be used and the nature of the subject matter information except in a diagram (Appendix 1) that can be interpreted as making the subject matter the determining factor – such that if the subject matter information is historical financial information then the standards must be either ISAs or International Standards on Review Engagements. This interpretation would logically result in a practitioner being unable to provide assurance on historical financial information under ISAE 3000.

We do not think such a result would be in the public interest as management's choice would be denied by the operation of standards. Management could obtain assurance from other parties that are not professional accountants, but we do not see that as ordinarily appropriate.

As a minimum, we suggest that the IAASB should issue an interpretation clarifying the application of ISAE 3000 as an alternative to ISA 805. Ideally the scope of ISAE 3000 should be clarified to remove the unhelpful reference to the Assurance Framework and replace it by a definite statement of scope of application. The IAASB ought also to consider whether the scope of application of ISAs ought to be made more specific.

ANSWERS TO SPECIFIC QUESTIONS

In this section of our response we answer the specific questions posed in the Exposure Draft and comment on the 'proposed conforming amendments to another ISA'.

Question 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 [Explanatory Memorandum]. 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 way in which the enhancements have been addressed. The proposals properly recognise the different treatment of listed entities and the circumstances that affect the disclosure of KAM.

³ For example at paragraphs 10 and 11 of the Framework.

Question 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.

Given the restricted nature of the changes, we find the enhancements to the guidance to be sufficient to allow their appropriate application. We comment elsewhere in this response on certain further matters where we consider clarification is needed.

Question 3 In relation to KAM [key audit matters]:

- (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?**

We agree with the implicit decision that it is not appropriate for either ISA 800 or ISA 805 to mandate KAM for listed entities in the absence of a legal or regulatory requirement. User demand, if any, may be accommodated through the voluntary use of ISA 701.

- (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 [other matters] 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).

KAM that is communicated in the auditor's report on the complete set of financial statements falls with the definition of 'other matter' in relation to an ISA 805 auditor's report and reference in that way is, therefore, appropriate. It would be misleading to make such a reference under the heading 'key audit matters'.

In the introductory material to Illustration 3, it may well be worth including a bullet point as follows: 'The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701'. This wording is included for Illustrations 1 and 2 and would clarify that the reference to KAM in the auditor's report on the complete set of financial statements is not a substitute for KAM in the context of the ISA 805 engagement.

Other than this and as set out below, we consider the guidance in paragraph A23 in proposed ISA 805 and Illustration 3 in Appendix 2 to be adequate for the purposes of promoting consistency of presentation. The user of such a report may well be left with uncertainty over the reason for the disclosure and hence the potential importance of referring to the KAM in the auditor's report on the complete set of financial statements. Given the range of circumstances that might be encountered, however, we see no alternative to leaving it to auditor judgement to determine whether and to what extent further explanation should be included in the report.

We agree with the interpretation presented in the Exposure Draft that the KAM in the auditor's report on the complete set of financial statements must be considered to be a whole and be read together with those financial statements. It would not be appropriate to refer users of an ISA 805 report to a subset of KAM.

Where an auditor wishes to emphasis a particular aspect of KAM in the auditor's report on the complete set of financial statements an appropriate mechanism would be to voluntarily adopt ISA 701 in the context of the ISA 805 engagement. We note that ISA 805 does not provide guidance or illustration for such an approach but again, given the range of circumstances that might be encountered, we see no alternative to leaving it to auditor judgement to apply ISA 701.

In view of the above, it may be worth including guidance in paragraph A19 (or A23) to the effect that when KAM is communicated in the auditor's report on a single financial statement or a specific element of a financial statement, that fact should be taken into account in deciding whether a separate disclosure is appropriate concerning KAM in the auditor's report on the complete set of financial statements. In general we believe the former would replace the latter. We recognise, however, that such circumstances may be rare and that, accordingly, such guidance may be of minor utility.

In answer to question 3(b)(ii), for the reasons set out above, we do not favour establishing requirements in relation to this.

Question 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.

As we note below, in our comments on the effective dates of ISA 800 and ISA 805, delay in issuing a revised ISA 810 may result in reporting in accordance with the extant ISA 810 on summary financial statements where the report on the full financial statements is prepared in conformity with the new and revised Auditor Reporting standards.

Whether this is a significant matter depends on user expectations, the number and types of engagements affected and the nature of the prospective changes to ISA 810. We note that the IAASB has obtained preliminary feedback from national auditing standard setters and accounting firms about the use of extant ISA 810 and how the standard was adapted at the national level. Ideally, while we would have preferred to see ISA 810 updated at the same time as ISA 800 and ISA 805, it may be sufficient to indicate in material accompanying the release of ISAs 800 and ISA 805 the nature of potential voluntary changes to reporting under ISA 810. We would be uncomfortable with 'conforming amendments' made without detailed consultation.

Further matter

Although not the subject of a specific question in the Exposure Draft, we agree with the intention of the conforming amendments to ISA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*. The actual text in the Exposure Draft includes two errors, but as one is in text proposed for deletion it is unimportant. The first sentence of paragraph A57 should however be: 'Law, regulation or national auditing standards may require that the auditor's report include the name of the engagement partner responsible for audits [restore 'of'] financial statements of listed entities'.

We also suggest that, for consistency with the proposed amendment to paragraph 45 of ISA 700, paragraph 49(k) should be amended as follows:

'(k) For audits of ~~complete sets of general purpose~~ financial statements of listed entities, the name of the engagement partner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.'

GENERAL MATTERS

In this section of our response, we address the four general matters identified in the section *Request for Comments* of the exposure draft.

(a) Preparers (including Small- and Medium-Sized Entities (SMEs)), and users (including Regulators) – The IAASB invites comments on the proposed revised ISAs from preparers (particularly with respect to the practical impacts of the proposed revised ISAs), and users (particularly with respect to the reporting aspects of the proposed ISAs and whether the communicative value of the auditor’s reports in accordance with proposed ISA 800 (Revised) and proposed ISA 805 (Revised) would be enhanced).

(b) Developing Nations – Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposed revised ISAs, in particular, on any foreseeable difficulties in applying it in a developing nation environment.

(c) Translations – Recognizing that many respondents may intend to translate the final ISAs for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed revised ISAs.

Given the small number of changes proposed, we see no significant problems in relation to matters (a) to (c) above.

(d) *Effective Date* – In line with the effective date of the new and revised Auditor Reporting standards, the effective date of:

- Proposed ISA 800 (Revised) is for audits of special purpose financial statements for periods ending on or after December 15, 2016; and
- 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.

Early adoption of the proposed standards would be permitted.

We agree with the effective dates set out above. These recognise the imperative to conform the effective date of the proposed changes to the new and revised Auditor Reporting standards. We note, however, that a similar and perhaps more logical imperative attaches to reporting on summary financial statements where the report on the full financial statements is prepared in conformity with the new and revised Auditor Reporting standards. Nevertheless, the IAASB has not proposed conforming amendments to extant ISA 810 at this time and that effectively precludes issuing a revised standard during 2015. We suggest that, to accommodate translation and implementation in a manner that does not threaten quality, the effective date of revised ISA 810 should not be as early as for periods ending on or after 15 December 2016.

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