

*International Standards on Auditing™ (ISA™)*

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*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*

This document was prepared by the Staff of the International Auditing and Assurance Standards Board® (IAASB®).

This IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

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# 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

This Basis for Conclusions has been prepared by staff of the International Auditing and Assurance Standards Board (IAASB). It relates to, but does not form part of, 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*.

ISA 800 (Revised) and ISA 805 (Revised) and the conforming amendment to ISA 700 (Revised) <sup>1</sup> were each approved with the affirmative votes of 17 out of 17 IAASB members present for the vote at the September 2015 meeting.<sup>2</sup>

## Background

1. ISA 800 deals with special considerations in the application of the ISAs (100-700 series) to an audit of financial statements that are prepared in accordance with a special purpose framework.<sup>3</sup> ISA 800 is written in the context of a complete set of financial statements prepared in accordance with a special purpose framework.
2. ISA 805 deals with special considerations in the application of the ISAs (100-700 series) to an audit of a single financial statement or a specific element, account or item of a financial statement (referred to hereafter as “element of a financial statement” or “element”).<sup>4</sup> If the single financial statement or element is prepared in accordance with a special purpose framework, ISA 800 also applies to the audit.

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<sup>1</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>2</sup> For a full record of the voting on ISA 800 (Revised), ISA 805 (Revised) and the conforming amendment, see the minutes of the September 21–25, 2015 IAASB meeting at <http://www.iaasb.org/meetings/new-york-usa-10> under the heading “Minutes.”

<sup>3</sup> A special purpose framework is defined in the ISAs as a financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework. For ease of reference, “an audit of financial statements prepared in accordance with a special purpose framework” and “an engagement to which proposed ISA 800 (Revised) applies” are hereafter referred to as an “ISA 800 engagement”, and the resulting auditor’s report issued thereon is referred to as an “ISA 800 auditor’s report.”

<sup>4</sup> For ease of reference, “audits of single financial statements and audits of a specific element, account or item of a financial statement” and “an engagement to which ISA 805 applies” are hereafter referred to as an “ISA 805 engagement”, and the resulting auditor’s report issued thereon is referred to as an “ISA 805 auditor’s report.”

3. In January 2015, the IAASB issued its [new and revised Auditor Reporting standards](#),<sup>5</sup> including ISA 700 (Revised). The auditor reporting requirements for ISA 800<sup>6</sup> and ISA 805<sup>7</sup> engagements are linked directly to the reporting requirements in ISA 700 (Revised).
4. The IAASB therefore agreed that it would be in the public interest to develop consequential amendments to ISA 800 and ISA 805 to explain how the new and revised Auditor Reporting standards affect them. However, the IAASB agreed that the amendments to ISA 800 and ISA 805 would be limited to consequential amendments in relation to reporting in such engagements and are not intended to change the underlying premise of those engagements.
5. In January 2015, the IAASB published an exposure draft of proposed ISA 800 (Revised) and proposed ISA 805 (Revised) (ED). Forty-three responses were received, across a broad range of stakeholders. Respondents included one Monitoring Group (MG) member,<sup>8</sup> other regulators and audit oversight bodies, accounting firms, national auditing standard setters (NSS), public sector representatives, IFAC member bodies, as well as representatives of small and medium practices (SMPs).
6. This Basis for Conclusions explains the more significant issues raised by respondents, and how the IAASB has addressed them.
7. Although investor groups did not formally comment on the ED the IAASB considered and took into account the feedback received from investors as part of the IAASB's broader Auditor Reporting project in finalizing ISA 800 (Revised) and ISA 805 (Revised).
8. The IAASB also discussed this project with the IAASB Consultative Advisory Group (IAASB CAG), including prior to the issuance of the ED and prior to the finalization of the changes to ISA 800 (Revised) and ISA 805 (Revised).

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<sup>5</sup> In September 2014, the IAASB unanimously approved its new and revised Auditor Reporting standards and related conforming amendments, which comprise:

- ISA 700 (Revised)
- ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*
- ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*
- ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
- ISA 570 (Revised), *Going Concern*
- ISA 260 (Revised), *Communication with Those Charged with Governance*
- Conforming amendments to other ISAs.

These standards will be effective for audits for periods ending on or after December 15, 2016.

<sup>6</sup> See paragraph 11 of ISA 800 (Revised), which states that "When forming an opinion and reporting on special purpose financial statements, the auditor shall apply the requirements in ISA 700 (Revised)."

<sup>7</sup> See paragraph 11 of ISA 805 (Revised), which states that "When forming an opinion and reporting on a single financial statement or on a specific element of a financial statement, the auditor shall apply the requirements in ISA 700 (Revised), adapted as necessary in the circumstances of the engagement."

<sup>8</sup> The Monitoring Group comprises the Basel Committee on Banking Supervision (BCBS), the European Commission (EC), the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), the International Forum of Independent Audit Regulators (IFIAR), the International Organization of Securities Commissions (IOSCO), and the World Bank (WB). IAIS responded to the ED.

## **Significant Matters**

### **Public Interest Issues Addressed by This Project**

9. In proposing changes to the ISAs relevant to auditor reporting on general purpose financial statements, the IAASB recognized the public interest benefits of greater transparency about the audit (in particular, through communication of key audit matters (KAM) and disclosure of the name of the engagement partner (EP) for audits of financial statements of listed entities), as well as increasing investor attention on matters related to going concern (GC) and other information (OI). The IAASB agreed that further clarity about these new enhancements in the context of ISA 800 and ISA 805 engagements would be in the public interest.

### **Nature of Changes in ISA 800 and ISA 805**

10. The IAASB retained the approach in extant ISA 800 and extant ISA 805, whereby the reporting requirements in ISA 700 (Revised) and other ISAs are not repeated in ISA 800 (Revised) and ISA 805 (Revised). Therefore ISA 700 (Revised) contains the overarching reporting requirements applicable for auditor's reports on special purpose financial statements and single financial statements, or elements of a financial statement, with additional requirements and guidance as considered necessary in ISA 800 (Revised) and ISA 805 (Revised).
11. The changes in ISA 800 and ISA 805 include:
  - (a) Refinements to the requirements and corresponding application material, where applicable, to clarify auditor reporting responsibilities in light of new concepts established by the new and revised Auditor Reporting standards. For example, see paragraph 14 of ISA 805 (Revised).
  - (b) New application material relating to GC, KAM, OI and naming of the EP (see paragraphs A15–A19 of ISA 800 (Revised) and paragraphs A19–A27 of ISA 805 (Revised)).
  - (c) Updated illustrative auditor's reports that:
    - (i) Align with the reporting requirements in ISA 700 (Revised) in terms of the layout and content, including the ordering of elements (for example, the Opinion section is now positioned first), use of headings and terminology; and
    - (ii) Include more fulsome descriptions of the circumstances that are assumed for each of the illustrative auditor's reports and indicate the applicability of the auditor reporting enhancements.

(See the illustrative auditor's reports in the Appendix of ISA 800 (Revised) and Appendix 2 of ISA 805 (Revised)).

### **Summary of Comments Received on Exposure**

12. Respondents expressed general support for the approach taken in the ED and agreed in principle that the enhancements resulting from the new and revised Auditor Reporting standards were appropriately addressed in proposed ISA 800 (Revised) and proposed ISA 805 (Revised). While respondents were generally more supportive of the proposals in proposed ISA 800 (Revised), most of the feedback relating to proposed ISA 805 (Revised), is also relevant to proposed ISA 800 (Revised).
13. There were a number of areas where there were requests for more guidance or further clarification. For example, many respondents, including the MG respondent, sought further clarification about

when, and if so how an auditor of a single financial statement or element is required to determine the effects of matters included within the auditor's report on the complete set of financial statements and to refer to those matters in the ISA 805 auditor's report, in particular as it relates to GC and OI.

14. Respondents' feedback to the ED brought forth issues:

- Relating to the IAASB's new and revised Auditor Reporting standards in the context of audits to which ISA 800 and ISA 805 apply. For example, it was suggested that proposed ISA 800 (Revised) and proposed ISA 805 (Revised) should better explain whether and how the principles for determining KAM in accordance with ISA 701 should be adapted when those that prepare the financial statements also function as those charged with governance (TCWG) (i.e., when there is not a separate body charged with oversight of the financial reporting process related to the special purpose financial statements or single financial statement or element).
- That existed in extant ISA 800 and ISA 805, but became more apparent with the issuance of the new and revised Auditor Reporting standards. For example, there was a suggestion that proposed ISA 800 (Revised) and proposed ISA 805 (Revised) should include a requirement for the auditor to assess whether the GC basis of accounting is relevant in the context of those engagements.
- That went beyond the project scope (i.e., beyond consequential amendments resulting from the new and revised Auditor Reporting standards). For example, it was suggested that the IAASB clarify the scope and applicability of proposed ISA 805 (Revised); and better explain the linkage between proposed ISA 805 (Revised) and ISAE 3000 (Revised).<sup>9</sup>

The IAASB agreed not to address issues that went beyond the limited project scope.

15. As noted above, respondents were generally supportive of the proposals in proposed ISA 800 (Revised), and the feedback relating to proposed ISA 805 (Revised) was also relevant to proposed ISA 800 (Revised). Accordingly, the remainder of this Basis for Conclusions addresses these categories of key issues raised by respondents

### **The Relationship Between the ISA 805 Auditor's Report and the Auditor's Report on the Complete Set of Financial Statements**

#### *Background and Summary of Comments Received on Exposure*

16. Paragraph 14 of extant ISA 805 required the auditor to determine the effects on the ISA 805 auditor's report of a modified opinion, Emphasis of Matter (EOM) paragraph or Other Matter (OM) paragraph that is included in the auditor's report on the complete set of financial statements. The reporting consequences of a material uncertainty related to GC and an uncorrected material misstatement of OI were previously addressed by reporting requirements in extant ISA 570<sup>10</sup> and extant ISA 720,<sup>11</sup> which were to include an EOM and OM paragraph, respectively, in the auditor's report on the complete set of financial statements. However, the reporting consequences have changed in ISA 570 (Revised) and ISA 720 (Revised), such that new specific sections in the

<sup>9</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

<sup>10</sup> ISA 570, *Going Concern*

<sup>11</sup> ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

auditor's report on the complete set of financial statements are now required, and these new sections are not considered EOM or OM paragraphs. Further, new ISA 701 addresses communicating KAM, which is required to be included in the auditor's report on complete sets of general purpose financial statements for audits of financial statements of listed entities. These new sections (GC, OI and KAM) in the auditor's report on the complete set of financial statements therefore fell outside of the scope of the auditor's considerations as contemplated in paragraph 14 of extant ISA 805.

17. In the ED, the IAASB proposed to retain the requirement and resulting flexibility in extant ISA 805 for the auditor to consider the effects on the ISA 805 auditor's report of a modified opinion, an EOM paragraph or an OM paragraph included in the auditor's report on the complete set of financial statements, and suggested a similar principle apply with respect to an uncorrected material misstatement of OI that had been described in the auditor's report on the complete set of financial statements.
18. However, the IAASB was of the view that, when the auditor's report on the complete set of financial statements described a material uncertainty related to GC, the information would always be relevant to users' understanding of the ISA 805 engagement. Therefore, paragraph 15(b) of proposed ISA 805 (Revised) required the auditor to repeat this information in the ISA 805 auditor's report.
19. Respondents asked the IAASB to simplify the guidance with respect to how auditors should consider matters in the auditor's report on the complete set of financial statements in the context of ISA 805 engagements. Concerns were also raised about the inconsistent manner in how auditors were being asked to consider the matters, in particular, a material uncertainty related to GC, KAM and an uncorrected material misstatement of OI.
20. Specifically, respondents challenged whether the *Material Uncertainty Related to Going Concern* section should always be repeated in the ISA 805 auditor's report, noting that the relevance of this information may differ between the ISA 805 engagement and the audit of the complete set of financial statements due to, for example, different reporting period ends, and whether the concept of GC is relevant in the financial reporting framework applied in the preparation of the single financial statement or element of a financial statement.

#### *IAASB Decisions*

21. The IAASB explored an alternative that would require auditors to consider a modified opinion, EOM or OM paragraph, a material uncertainty related to GC, KAM, or an uncorrected material misstatement of OI included in the auditor's report on the complete set of financial statements and:
  - (a) Determine the effect that those matters have on the ISA 805 auditor's report in the context of the audit to which ISA 805 applies; and
  - (b) Always refer to these matters in an OM paragraph in the ISA 805 auditor's report, so as to provide full transparency to users of the ISA 805 auditor's report.
22. The IAASB opted against this approach, agreeing with those respondents who argued the importance of auditor judgment in determining which matters to include in the ISA 805 auditor's report so that only the relevant matters would be highlighted to users of the ISA 805 auditor's report, compared to mandating standardized language about all matters in all circumstances.

23. Rather, the IAASB concluded that auditors should be required to consider the implications of certain matters that are included in the auditor's report on the complete set of financial statements for both the conduct of the audit to which ISA 805 applies, as well as the auditor's report thereon. Accordingly, proposed ISA 805 (Revised) was changed as follows:
- The concepts of "...determine the effects" and report accordingly in paragraphs 14–15 of proposed ISA 805 (Revised) was ultimately replaced with "...consider the implications, if any, that these matters have for the audit ... and for the auditor's report thereon". New application material has been included in ISA 805 (Revised) to assist auditors in considering the implications of matters that are included in the auditor's report on the complete set of financial statements for the ISA 805 engagement and the resulting auditor's reports (see paragraphs A23–A26 of ISA 805 (Revised)).
  - The communication of KAM in the auditor's report on the complete set of financial statements has been added to the list of matters that may have implications for the ISA 805 engagement and the ISA 805 auditor's report (see paragraph 14(d) of ISA 805 (Revised)). See also the further discussion of KAM in paragraphs 32–39 of this Basis for Conclusions.
24. This approach takes into account the views of respondents that ISA 805 engagements are of a unique nature and therefore mandating a reference to communications about a material uncertainty related to GC in the auditor's report on the complete set of financial statements in all circumstances would not be appropriate.
25. From a public interest perspective, the IAASB's focus in finalizing the requirements and guidance in ISA 805 (Revised) was on supporting auditors in determining which information in the auditor's report on the complete set of financial statements may be relevant to users of the ISA 805 report. To support the revised requirement in paragraph 14 and in addition to the application material in paragraphs A23–A26 of ISA 805 (Revised), the IAASB included new application material to acknowledge that auditors may deem it appropriate to refer in an OM paragraph in the ISA 805 auditor's report to certain matters in the auditor's report on the complete set of financial statements, including for example, a *Material Uncertainty Related to Going Concern* section. This guidance explains that such a reference may be useful even when the GC basis of accounting is not relevant under the financial reporting framework that applies to the presentation of the single financial statement or the specific element of a financial statement (see paragraph A27 of ISA 805 (Revised)). Similar application material is included in paragraph A19 of ISA 800 (Revised) to remind auditors that certain matters in the auditor's report on the complete set of general purpose financial statements, including a *Material Uncertainty Related to Going Concern* section, may be relevant to users of the ISA 800 auditor's report.

### **Additional Issues Related to GC**

#### *Background and Summary of Comments Received on Exposure*

26. ISA 700 (Revised)<sup>12</sup> requires auditors to include in the auditor's report a description of:
- Management's responsibility to assess the entity's ability to continue as a GC, and whether the use of the GC basis of accounting is appropriate; and

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<sup>12</sup> ISA 700 (Revised), paragraphs 34(b) and 39(b)(iv)

- The auditor's responsibility to conclude on the appropriateness of management's use of the GC basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a GC.
27. In the ED, the proposed ISAs explained the applicability of ISA 570 (Revised) and the auditor's responsibilities with respect to management's use of the GC basis of accounting for audits to which ISA 800 and ISA 805 apply.<sup>13</sup> This guidance specifically noted that, when the GC basis of accounting is not relevant, ISA 570 (Revised) is not applicable and the requirements in paragraphs 33(b) and 38(b)(iv) of ISA 700 (Revised) to describe in the auditor's report the respective responsibilities of management and the auditor relating to GC do not apply.
28. Respondents expressed support for addressing auditor reporting with respect to GC in ISA 805 (Revised), but suggested that the IAASB's original proposals be revisited and clarified. Specifically, respondents requested more guidance in ISA 800 (Revised) and ISA 805 (Revised) to explain the applicability of ISA 570 (Revised) and how the new requirements in ISA 700 (Revised) relating to the description of management and auditor responsibilities about GC should be applied.
29. The MG respondent suggested that the auditor's report or the notes to the financial statements should indicate when the GC basis of accounting is not relevant and, in such cases, explicitly indicate that the auditor reporting requirements to describe management's responsibilities and the auditor's responsibilities with respect to GC do not apply.

#### *IAASB Decisions*

30. The IAASB sought to further clarify the guidance in ISA 800 (Revised) and ISA 805 (Revised), bearing in mind that:
- ISA 570 already includes guidance related to its applicability to special purpose frameworks; and
  - A single financial statement or element of a financial statement may be prepared in accordance with either a general purpose or a special purpose financial reporting framework.
31. The Board continued to support the position in paragraph 2 of ISA 570 (Revised), which explains that special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the GC basis of accounting is relevant (e.g., the GC basis of accounting is not relevant for some financial statements prepared on a tax basis in particular jurisdictions). In light of this, the Board agreed it was necessary to include framework-neutral application material in both ISA 800 (Revised) and ISA 805 (Revised), to remind auditors that the respective descriptions of responsibilities relating to GC in the auditor's report may need to be tailored depending on the relevance of the GC basis of accounting to the preparation of the financial statement(s) or element (see paragraph A15 of ISA 800 (Revised), and paragraph A19 of ISA 805 (Revised), respectively). This includes the possibility that the descriptions are not included when they are not relevant.

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<sup>13</sup> See paragraph A16 of proposed ISA 800 (Revised) and paragraph A18 of proposed ISA 805 (Revised).

**Additional Issues Related to KAM***Background and Summary of Comments on Exposure*

32. ISA 700 (Revised) requires the auditor to communicate KAM in accordance with ISA 701 for all audits of complete sets of general purpose financial statements of listed entities, and also in other cases where law or regulation requires the auditor to communicate KAM or where the auditor voluntarily decides to communicate KAM.
33. The Explanatory Memorandum to the ED highlighted that the IAASB considered whether auditors should be required to determine and communicate KAM in the context of ISA 800 and ISA 805 engagements for listed entities. The IAASB noted that the call for KAM came primarily from users of complete sets of general purpose financial statements of listed entities, and that ISA 800 applies to audits on financial statements prepared in accordance with a diverse range of special purpose frameworks, including those that may be established by law or regulation, or simply by private contract. Accordingly, the IAASB was of the view that it would be preferable, at least initially, not to require ISA 701 to be applied in ISA 800 or ISA 805 engagements for listed entities and allow for practice to emerge in this area.
34. The ED therefore included new application material in both proposed ISA 800 (Revised) and proposed ISA 805 (Revised) to explain that the communication of KAM was not required for ISA 800 and ISA 805 engagements, but that law or regulation may require such communication, or the auditor may decide to voluntarily communicate KAM. In such cases, the auditor is required to apply ISA 701 in its entirety.<sup>14</sup>
35. Proposed ISA 805 (Revised) also included application material to explain that communication of KAM in the auditor's report on the complete set of financial statements may be useful in deciding whether to voluntarily apply ISA 701 in the ISA 805 engagement.<sup>15</sup> The ED also included new application material that auditors may find useful if they decide to refer, in an OM paragraph in the ISA 805 auditor's report, to KAM that is included in the auditor's report on the complete set of financial statements.<sup>16</sup>
36. All but four respondents expressed support for the IAASB's decision not to require the communication of KAM for audits of listed entities in the context of engagements to which ISA 800 or ISA 805 apply. However, those four respondents had very different reasons for not supporting the position taken in the ED. On one hand, the MG respondent was of the view that KAM should be required for audits of complete sets of special purpose financial statements. On the other hand, two respondents argued that the concept of KAM is not applicable to engagements to which ISA 800 or ISA 805 apply. Finally, a respondent cautioned that permitting voluntary application of KAM may:
- Lead to confusion among stakeholders and could potentially increase the expectation gap, and
  - Create a competitive disadvantage for SMPs as larger accounting firms may be perceived to be providing a better service with the communication of KAM.
37. Many respondents suggested the need to further clarify the proposed application material related to voluntary communication of KAM in an ISA 805 engagement. Respondents were also confused by

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<sup>14</sup> See paragraph A17 of proposed ISA 800 (Revised) and paragraph A19 of proposed ISA 805 (Revised).

<sup>15</sup> See paragraph A19 of proposed ISA 805 (Revised).

<sup>16</sup> See paragraph A23 of proposed ISA 805 (Revised).

the application material that suggested the auditor could include an OM paragraph in the ISA 805 auditor's report to refer to KAM in the auditor's report on the complete set of financial statements. On one hand, some respondents argued the merits of consistency and suggested that this material be elevated to a requirement. On the other hand, it was suggested that the ISA 805 auditor's report should only address KAM if the auditor had voluntarily applied ISA 701 in its entirety, and should not refer to the KAM that is communicated in the auditor's report on the complete set of financial statements.

#### *IAASB Decisions*

38. The IAASB affirmed its original position set out in the ED – that initially limiting the requirement to communicate KAM for audits of general purpose financial statements of listed entities will allow for practice to evolve. The Board acknowledges that there is an opportunity for industry regulators and NSS to promulgate law, regulation, or national auditing standards to further specify requirements relating to the communication of KAM in accordance with ISA 701 for ISA 800 and ISA 805 engagements. Accordingly, paragraph A16 of ISA 800 (Revised) and paragraph A20 of ISA 805 (Revised) include guidance to explain that ISA 701 only applies in ISA 800 and 805 engagements when required by law or regulation or when the auditor otherwise decides to communicate KAM. The IAASB will monitor any such developments and may revisit its position as part of its planned post-implementation review of the new and revised Auditor Reporting standards.
39. In support of the required consideration of KAM explained in paragraph 23 of this Basis for Conclusions, the IAASB also added application material in paragraph A26 of ISA 805 (Revised). In particular, this material notes that the information included in the *Key Audit Matters* section about how the matter was addressed in the audit of the complete set of financial statements may be useful to the auditor's determination of how to address the matter when it is relevant to the audit of the single financial statement or the specific element of the financial statement.

#### **Other Issues Related to OI**

##### *Background and Comments Received on Exposure*

40. Paragraph A13 of proposed ISA 800 (Revised) included a conforming change considered necessary as a result of the IAASB's finalization and approval of ISA 720 (Revised),<sup>17</sup> which addressed auditor reporting on OI. Also, proposed ISA 800 (Revised) and proposed ISA 805 (Revised) included new application material to remind auditors that the reporting requirements in ISA 720 (Revised) are applicable in the context of ISA 800 and ISA 805 engagements.
41. Respondents generally expressed support for the proposals in both ISAs with respect to OI, but suggested that clarification was needed to more closely align with the terminology and principles in ISA 720 (Revised), and that more guidance, including illustrative wording, should be included in both standards to assist auditors in applying the reporting requirements of ISA 720 (Revised).

#### *IAASB Decisions*

42. The IAASB agreed that further clarity would be helpful. Paragraph A17 of ISA 800 (Revised) and paragraph A21 of ISA 805 (Revised) incorporate respondents' suggestions to clarify the application material with respect to how the requirements in ISA 720 (Revised) relate to ISA 800 and ISA 805

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<sup>17</sup> ISA 720 (Revised), *The Auditor's Responsibilities. Relating to Other Information*

engagements, in particular by explaining how the concept of an “annual report” as defined in ISA 720 (Revised) relates to these engagements.

### **Applicability of ISA 260 (Revised) to ISA 800 and ISA 805 Engagements**

#### *Background and Summary of Comments on Exposure*

43. Respondents suggested a need for revisions to paragraph A12 of proposed ISA 800 (Revised)<sup>18</sup> to better explain the applicability of ISA 260 (Revised), in light of the practical implications that may arise if an auditor were to voluntarily apply KAM. It was also suggested that similar guidance with respect to the applicability of ISA 260 (Revised) be included in ISA 805 (Revised). The MG respondent added that ISA 260 (Revised) should always apply, and that auditor communication with TCWG should be always be required when the auditor’s report is publicly available.

#### *IAASB Decision*

44. The IAASB agreed that revisions to the application material in both standards could be made to clarify the applicability of ISA 260 (Revised). Paragraph A12 of ISA 800 (Revised) and paragraph A11 of ISA 805 (Revised) include revised application material, in line with ISA 260 (Revised), explaining that:
- The auditor is required to determine the appropriate person(s) within the entity’s governance structure with whom to communicate.
  - In some cases, all of TCWG are involved in managing the entity, and the application of the communication requirements is modified to recognize this position.
  - Those person(s) responsible for the oversight of the preparation of the special purpose financial statements, single financial statement or elements of a financial statement may not be the same as TCWG responsible for the oversight of the preparation of the complete set of general purpose financial statement(s).

### **Other Revisions and Enhancements**

#### *ISA 800 (Revised)*

45. The IAASB determined that two clarifications were necessary to the requirements in proposed ISA 800 (Revised) to align with the approaches taken in:
- (a) ISA 700 (Revised), which includes requirements that specify the ordering of the “Opinion” and the “Basis for Opinion” sections of the auditor’s report (see paragraph 13 of ISA 800 (Revised)); and
  - (b) ISA 706 (Revised), which now explicitly requires the term EOM to be included in the heading in the auditor’s report when an EOM paragraph has been included (see paragraph 14 of ISA 800 (Revised)).
46. With respect to the definitions of special purpose financial statements, the MG respondent suggested that the IAASB consider emphasizing the importance of disclosures in such financial statements in the context of an ISA 800 or an ISA 805 engagement. Paragraphs A4 of ISA 800

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<sup>18</sup> Paragraph A12 of proposed ISA 800 (Revised) discusses the responsibility of TCWG for overseeing the preparation of special purpose financial statements.

(Revised) and A2 of ISA 805 (Revised) now include enhanced application material that explicitly address disclosures in the context of those engagements.

*ISA 805 (Revised)*

47. The MG respondent suggested that IAASB consider:
- (a) Clarifying the definition of what could be considered a “single financial statement”. Paragraphs 6(c) and A2 of ISA 805 (Revised) includes revisions that are intended to be responsive to this comment. Specifically, paragraph A2 clarifies that the term “financial statements” as used throughout the ISAs can also refer to a single financial statement.
  - (b) Including further guidance in the ISAs to better explain the interaction between ISA 800 and ISA 805. Responsive to this suggestion, paragraph 11 of ISA 805 (Revised) clarifies that ISA 800 (Revised) applies, adapted as necessary, when the financial reporting framework that was used to prepare the financial statement or element is a special purpose framework.<sup>19</sup>
  - (c) Explaining what is meant by the term “not published together” as used in paragraphs 16–17 of ISA 805 (Revised). As these concepts existed in extant ISA 805, this suggestion was deemed to be outside of the project scope.

**Conforming Amendment to ISA 700 (Revised) to Address Disclosure of the Name of the EP**

*Background and Summary of Comments Received on Exposure*

48. The IAASB was of the view that auditors issuing ISA 800 and ISA 805 auditor’s reports for listed entities should be required to disclose the name of the EP in their auditor’s reports. Accordingly, a conforming amendment to ISA 700 (Revised) was proposed.
49. While the majority of the respondents were supportive of the IAASB’s proposal regarding the disclosure of the name of the EP for both ISA 800 and ISA 805, some respondents cautioned against it, noting that:
- The purpose of audits to which ISA 800 and ISA 805 apply, as well as the intended users of the of the resulting auditor’s reports, are different from that of general purpose financial statements.
  - The IAASB’s approach with respect to the applicability of the requirement relating to the naming of the EP should be the same as for KAM (i.e., if KAM is not required for ISA 800 and 805 audits of listed entities, then the disclosure of the name of the EP should not be required either).
  - Because of the differences in legal and regulatory environments, the decision to require the disclosure of the EP’s name in the auditor’s report should be dealt with at the national level.

*IAASB Decision*

50. Notwithstanding the cautionary advice from some respondents, the IAASB continues to believe that it is in the public interest to provide transparency in auditor’s reports about the name of the EP in ISA 800 and ISA 805 auditor’s reports for listed entities. As such, the proposed conforming amendment to ISA 700 (Revised) was finalized.

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<sup>19</sup> This point was previously covered in paragraph 1 of extant ISA 805 only.

**ISA 810, Engagements to Report on Summary Financial Statements**

51. The ED included a discussion of the IAASB's plan with respect to ISA 810. The IAASB is dealing with ISA 810 as a separate project. Accordingly, the IAASB released a separate ISA 810 ED in August 2015 that deals with the auditor's responsibilities relating to an engagement to report on summary financial statements derived from financial statements audited in accordance with ISAs by that same auditor.

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