ISA 810, Engagements to Report on Summary Financial Statements – Issues and Drafting Team Recommendations

Summary of the IAASB’s Discussions at Its March 2015 Meeting

The IAASB agreed in principle with Staff’s recommendation as set out in Agenda Item 11-A¹ to develop limited conforming amendments to ISA 810 to address issues relating to going concern (GC) and other information (OI).² However, one IAASB member was of the view that taking an approach that involved making a narrow fix to address ISA 810, without addressing the other overarching issues that had been deliberated by the IAASB at previous meetings, may incorrectly implicitly suggest that ISA 810 as a whole is fit for purpose. In light of this view, this member suggested the IAASB might explore whether ISA 810 should be withdrawn, in light of the fact that the standard is not widely used, and even when it is being used, national auditing standard setters (NSS) have had to further tailor the standard in light of the environment in which such engagements are being conducted (e.g., to link to appropriate criteria).

In light of the IAASB’s limited resources and other priorities, it was noted that any changes to ISA 810 should be truly conforming in nature at this stage and should not go beyond what was described in The IAASB’s Strategy for 2015–2019 and The IAASB’s Work Plan for 2015–2016.

The IAASB agreed to seek feedback at its 2015 NSS meeting to confirm its approach, and take steps to emphasize the limited and conforming nature of the changes to ISA 810 when the Exposure Draft (ED) is issued.

IAASB Consultative Advisory Group (CAG) Chairman’s Remarks

Ms. de Beer noted that the CAG was generally supportive of the Staff’s recommendation to move forward with limited conforming amendments, but cautioned against giving an impression that no other changes to ISA 810 may be necessary. She disagreed with the suggestion made to withdraw ISA 810, noting that it is widely used in certain jurisdictions including South Africa, and that more stakeholder engagement would be needed before taking that decision.

² Agenda Item 11-A explained that ISA 570 (Revised), Going Concern, and ISA 720 (Revised), The Auditor’s Responsibilities Relating to Other Information, now require separate sections in the auditor’s report on the audited financial statements when a material uncertainty (MU) related to GC or a material misstatement of OI exists. Such information was previously required to be addressed in Emphasis of Matter (EOM) and Other Matter (OM) paragraphs, respectively, and, in accordance with paragraph 17 of extant ISA 810, would always be required to be highlighted in the ISA 810 report. Because extant ISA 810 does not refer to these new sections, without amendment to ISA 810 this new information would not be required to be addressed in the ISA 810 auditor’s report, therefore resulting in an information gap.
Objectives of the IAASB Discussion
The objectives of the IAASB discussion at its June 2015 meeting are to:

(a) Consider the Drafting Team’s (DT-700’s) recommendations for proposed limited conforming amendments to extant ISA 810 to address issues related to GC and OI, based on Staff’s Technical Review of extant ISA 810.

(b) Consider whether it would be appropriate to propose further changes to ISA 810 beyond those included in Agenda Item 5-B, taking into account the feedback received from the respondents to the ISA 800 and ISA 805 ED, as well as the feedback received from the NSS at the IAASB-NSS Liaison Group meeting in May 2015.

(c) Subject to the outcome of the Board’s considerations of (a) and (b) above, approve the proposed amendments to ISA 810 for exposure and agree to an appropriate exposure period.

Feedback Received to Date

1. At its March 2015 meeting, the CAG agreed with Staff’s recommendation to make limited amendments to ISA 810 to address the information gap relating to auditor reporting on a MU related to GC or a material misstatement of OI that will arise when the new and revised Auditor Reporting standards become effective. Some CAG Representatives were of the view that investing additional time on a more fundamental consideration of ISA 810 would not be worthwhile in light of the Board’s other priorities. A concern was also raised that criteria for such engagements do not exist on an international basis (e.g., within International Financial Reporting Standards) and, as such, it was acknowledged that NSS may be best placed to make further changes to ISA 810.

2. At its March 2015 meeting, the IAASB also agreed in principle with Staff’s recommendation to develop limited conforming amendments, as noted above. The IAASB also suggested that feedback be sought from Forum of Firms (FoF), International Forum for Independent Regulators (IFIAR) and NSS in addition to the feedback from the ISA 800 and ISA 805 ED. Representatives at the April 2015 FoF and IFIAR Standards Coordination Working Group meetings did not raise exceptions to the IAASB’s planned approach with respect to ISA 810.

3. The 30 of 43 respondents who responded to the question related to ISA 810 in the ISA 800 and ISA 805 ED expressed mixed views about next steps with respect to ISA 810 as follows:

   (a) Eight respondents were of the view that conforming amendments are not needed to ISA 810 at this time. Two of these eight respondents were of the view that, prior to making any

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3 ISA 800, Special Considerations – Audits of Financial Statements Prepared in Accordance with SpecialPurpose Frameworks
4 ISA 805, Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
5 Question 4 of the ISA 800 and ISA 805 ED included a question soliciting views about the IAASB’s planned approach with respect to ISA 810. There were 43 comment letters received in response to the ISA 800 and ISA 805 ED, of which 13 of the respondents provided no specific recommendation or provided no response to Question 4.
6 NSS: NBA, NZAuASB; Accounting Firms: BDO, DTT, KPMG, MNP; Member Bodies and Other Professional Organizations: AIA, ISCA
7 Accounting Firms: BDO, DTT
conforming amendments to extant ISA 810 to address the impact of the new and revised Auditor Reporting Standards, a more comprehensive revision of extant ISA 810 should be carried out to address what those two respondents viewed as fundamental issues with extant ISA 810.

(b) Eight respondents\(^8\) expressed support for proposing limited conforming amendments to ISA 810 to address auditor reporting issues relating to MU related to GC or material misstatement of OI only.

(c) Fourteen respondents\(^9\) were of the view that ISA 810 should be fully updated to align with the new and revised Auditor Reporting standards. This included respondents from four jurisdictions – South Africa, Canada, Malaysia and Hong Kong – where ISA 810 is currently used. Other respondents, in particular those from Australia and Europe, noted that the conforming amendments to align the ISAs were needed as a matter of principle to ensure consistency with the new and revised Auditor Reporting standards.

NSS raised views similar to those raised in the feedback from the ISA 800 and ISA 805 ED in responding to a request for input in advance of the May 2015 meeting.

4. In addition, some of those respondents described in paragraph 3(b) and 3(c), as well as some NSS at the May 2015 meeting, were of the view that there are more fundamental issues in ISA 810 (e.g., a lack of suitable accounting and financial reporting criteria at the international level for the preparation of summary financial statements) and that they should be addressed as part of a separate project with a different timeline.

**DT-700 Recommendations**

*Proposed Conforming Amendments to Address GC, OI and Key Audit Matters (KAM) Section*

5. DT-700 considered the feedback received and is of the view that, at a minimum, limited amendments to ISA 810 are necessary to address the information gap relating to auditor reporting on a MU related to GC or a material misstatement of OI that will arise when the new and revised Auditor Reporting standards become effective.

6. Taking into account the feedback from the respondents to the ISA 800 and ISA 805 ED and the intent of the enhancements to the Auditor Reporting standards, DT-700 recommends that further changes be proposed to ISA 810 as follows:

(a) Deleting the phrase “An introductory paragraph that:” in the requirements in paragraph 14(c) relating to the elements of an ISA 810 auditor’s report, thereby allowing auditors the option to position the auditor’s opinion first, which is consistent with ISA 700 (Revised).\(^{10}\)

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\(^8\) NSS: ASB (GC only), CAASB, IDW, JICPA (GC only); Accounting Firms: EYG, GTI, PWC; Member Bodies and Other Professional Organizations: SMPC

\(^9\) Regulators and Oversight Authorities: IRBA, MAOB, PAAB; NSS: AUASB, HKICPA, MAASB, ZAPB; Accounting Firms: RSM; Member Bodies and Other Professional Organizations: CAANZ, FEE, ICAEW, KICPA, MICPA, SAICA

\(^{10}\) ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements
(b) A new requirement, when applicable, for the auditor’s report on the summary financial statements to refer to the existence of a KAM section in the auditor’s report on the audited financial statements.

(c) Re-ordering of the sections within the illustrations in ISA 810 to align them to the preferred presentation of the auditor’s report in ISA 700 (Revised).

7. In developing the proposed changes set out below, DT-700 considered and took into account its initial proposals that were considered by the IAASB at its September 2014 meeting. The proposed changes to paragraph 17 of ISA 810 relating to including a reference to the auditor’s report on the audited financial statements are also consistent with the approach taken in ISA 805 when a reference to the auditor’s report on the complete set of financial statements is included in the auditor’s report on the single financial statement or element.

### Proposed Amendment to ISA 810—Requirements

*Elements of the Auditor’s Report*

14. The auditor’s report on summary financial statements shall include the following elements: (Ref: Para. A165)

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(c) An introductory paragraph that:

(c)(i) Identification of the summary financial statements on which the auditor is reporting, including the title of each statement included in the summary financial statements. (Ref: Para. A13)

(d)(ii) Identification of the audited financial statements.

(e)(iii) Reference to the auditor’s report on the audited financial statements, the date of that report, and, subject to paragraphs 17–18, the fact that an unmodified opinion is expressed on the audited financial statements.

(f)(iv) If the date of the auditor’s report on the summary financial statements is later than the date of the auditor’s report on the audited financial statements, states a statement that the summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor’s report on the audited financial statements.

(g)(v) A statement indicating that the summary financial statements do not contain all the disclosures required by the financial reporting framework applied in the preparation of the audited financial statements, and that reading the summary financial statements is not a substitute for reading the audited financial statements.

(h)(vi) A description of management’s responsibility for the summary financial statements, explaining that management is responsible for the preparation of the summary financial statements in accordance with the applied criteria.

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11 Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

12 Or other term that is appropriate in the context of the legal framework in the particular jurisdiction
(i)(e) A statement that the auditor is responsible for expressing an opinion on the summary financial statements based on the procedures required by this ISA.

(j)(f) A paragraph clearly expressing an opinion (see paragraphs 9–11).

(k)(g) The auditor’s signature.

(l)(h) The date of the auditor’s report. (Ref: Para. A14)

(m)(i) The auditor’s address.

…

Modifications to the Opinion, Emphasis of Matter Paragraph, or Other Matter Paragraph in Reference to the Auditor’s Report on the Audited Financial Statements (Ref: Para. A165)

17. When the auditor’s report on the audited financial statements contains:

   (a) A qualified opinion in accordance with ISA 705 (Revised);\(^{13}\)

   (b) An Emphasis of Matter paragraph, or an Other Matter paragraph in accordance with ISA 706 (Revised);\(^{14}\)

   (c) A Material Uncertainty Related to Going Concern section in accordance with ISA 570 (Revised);\(^{15}\)

   (d) Communication of key audit matters in accordance with ISA 701;\(^{16}\) or

   (e) A statement that describes an uncorrected material misstatement of the other information in accordance with ISA 720 (Revised),\(^{17}\)

   but the auditor is satisfied that the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria, the auditor’s report on the summary financial statements shall, in addition to the elements in paragraph 14:

   (i)(a) State that the auditor’s report on the audited financial statements contains a qualified opinion, an Emphasis of Matter paragraph, or an Other Matter paragraph, a Material Uncertainty Related to Going Concern section, a Key Audit Matters section or a statement that describes an uncorrected material misstatement of the other information; and

   (ii)(b) Describe: (Ref: Para. A15)

   a. (i) The basis for the qualified opinion on the audited financial statements, the basis thereof and the effect thereof, if any, on the summary financial statements and that qualified opinion, or the Emphasis of Matter or the Other Matter paragraph in the auditor’s report on the audited financial statements; and

   b. (ii)—The Emphasis of Matter paragraph, the Other Matter paragraph, the material uncertainty related to going concern, or the uncorrected material misstatement

\(^{13}\) ISA 705 (Revised), *Modifications to Opinion in Independent Auditor’s Report*

\(^{14}\) ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*

\(^{15}\) ISA 570 (Revised), *Going Concern, paragraph 22*

\(^{16}\) ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*

\(^{17}\) ISA 720 (Revised), *The Auditor’s Responsibilities Related to Other Information, paragraph 22(e)(i)*
of the other information in the auditor's report on the audited financial statements and the effect thereof, if any, on the summary financial statements, if any.

Proposed Amendment to ISA 810 – Application and Other Explanatory Material

Introductory Paragraph Identification of the Summary Financial Statements (Ref: Para. 14(c)(i))

A13. When the auditor is aware that the summary financial statements will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the summary financial statements are presented. This helps readers to identify the summary financial statements to which the auditor's report relates.

Date of the Auditor’s Report (Ref: Para. 14(l4), 16)

A14. The person or persons with recognized authority to conclude that the summary financial statements have been prepared and take responsibility for them depend on the terms of the engagement, the nature of the entity, and the purpose of the summary financial statements.

Reference to the Auditor's Report on the Audited Financial Statements (Ref: Para. 17(ii))

A15. Paragraph 17 of this ISA requires the auditor’s report on the summary financial statements to include a reference to the existence of a Key Audit Matters section in the auditor’s report on the audited financial statements, when applicable. The auditor is not required to describe the individual key audit matters in the auditor’s report on the summary financial statements.

Reordering the Illustrations in ISA 810

8. Taking into account suggestions by those respondents to the ISA 800 and ISA 805 ED who supported conforming amendments to ISA 810 as a result of the new and revised Auditor Reporting standards, DT-700 is of the view that, as a matter of principle, the ISA 810 illustrative auditor’s reports should align to the preferred presentation in ISA 700 (Revised) as illustrated in Agenda Item 5-B. However, DT-700 agreed that this would be done strictly for illustrative purposes and that:

(a) New requirements relating to the elements of an ISA 810 auditor’s report were unnecessary. Therefore, there would be no change to ISA 810 to:

(i) Require the Opinion section to be positioned first.

(ii) Require a Basis for Opinion section that includes a statement about independence and other relevant ethical responsibilities.

(iii) Require the name of the engagement partner to be included for engagements to report on summary financial statements of listed entities.

(b) The names of titles of the headings of the sections in the ISA 810 illustrative reports would remain unchanged, except for the addition of a new (optional) heading “The Audited Financial Statements and Our Report Thereon” as illustrated in Agenda Item 5-B.

(c) The ordering of the requirements of the elements to be included in the ISA 810 auditor’s report (i.e., paragraph 14) would remain unchanged and would not align to the ordering of the sections in the illustrative auditor’s reports.
9. Proposed amendments to Illustration 1 in Agenda Item 5-B include example wording for how a reference to the existence of a MU related to GC and KAM in the auditor’s report on the audited financial statements may be accomplished in the auditor’s report on the summary financial statements. Specific to KAM, given that it is a relatively new concept, DT-700 believed that users of the ISA 810 auditor’s report may also benefit from having some context about KAM, rather than a simple reference. Accordingly, though not required, Illustration 1 includes a description of the definition of KAM that would appear in the introductory language in the KAM section of the auditor’s report on the audited financial statements as follows: “Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period.”

In recommending these changes to the illustrations in ISA 810, DT-700 acknowledges that, although the revised presentation of the illustrative auditor’s reports in ISA 810 would not be required, it may provide useful guidance to auditors, and would proactively address expectations of having them in the ISA 810 ED.

ISA 810 Auditor’s Report and ISA 720 (Revised)

10. As a result of a conforming amendment to ISA 720 (Revised), changes were made to the existing requirement in ISA 810 that requires the auditor to “read the other information included in a document containing the summary financial statements and related auditor’s report to consider whether there is a material inconsistency between the other information and the summary financial statements. If the auditor identifies a material inconsistency, the auditor shall determine whether the summary financial statements or the other information needs to be revised. If the auditor becomes aware that the other information needs to be revised, the auditor shall discuss the matter with management.”

11. The application material to this requirement further notes that ISA 720 (Revised) contains requirements and guidance regarding the auditor’s responsibilities relating to other information in a financial statement audit engagement. This guidance further explains that, “adapted as necessary in the circumstances…”, these requirements and guidance may be helpful in applying the requirement in paragraph 24 of ISA 810. Importantly, the auditor is not required to describe the summary other information or the auditor’s work thereon, or any uncorrected material misstatement of the summary other information in the ISA 810 report.

12. DT-700 is of the view that no further changes are needed in ISA 810 to address auditor reporting about other information (ISA 720 (Revised)).

Reference to the Auditor’s Report on the Audited Financial Statements

13. Paragraph 14(c)(v) of extant ISA 810 requires the auditor to include the following in the ISA 810 report:

A statement indicating that the summary financial statements do not contain all the disclosures required by the financial reporting framework applied in the preparation of the audited financial statements, and that reading the summary financial statements is not a substitute for reading the audited financial statements.

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18 See final pronouncement of ISA 720 (Revised) dated April 2015, page 100.
14. At its September 2014 meeting, the IAASB considered whether the above statement could be expanded to state that, “…reading the summary financial statements and the auditor’s report thereon is not a substitute for reading the audited financial statements and the auditor’s report thereon.” At that time, there was a view that requiring this expanded statement could be a useful way to signal and encourage readers of the ISA 810 report to read the report on the audited financial statements, thereby benefitting from the enhancements that would be included in the auditor’s report on the audited financial statements (in particular, the communication of KAM).

15. In light of its recommendations to make limited amendments to ISA 810 as discussed above, DT-700 does not believe that requiring such a statement would be necessary. This is particularly because the recommended revisions to paragraph 17 of ISA 810 would already require the ISA 810 auditor’s report to include communications of any “signals” (i.e., an EOM paragraph, an OM paragraph, a MU related to GC section, a statement describing an uncorrected material misstatement in the OI and a KAM section) that may be included in the auditor’s report on the audited financial statements.

16. In the case when summary financial statements are prepared for an entity and KAM are communicated in the auditor’s report on the audited financial statements, DT-700 is of the view that it would be helpful to highlight the existence of that communication in the ISA 810 report (see DT-700’s recommendation to revise paragraph 17 in paragraph 7 above).

Exposure Period and Effective Date for Amendments to ISA 810

17. Due to their limited nature, DT-700 proposes that these amendments be exposed for a period of 90 days, to be issued as soon after the June 2015 IAASB meeting as practicable. This would allow for the IAASB to work towards finalization of the amendments in December 2015, so that they could become effective at the same time as the other new and revised Auditor Reporting standards (i.e., for audits of financial statements for periods ending on or after December 15, 2016).

Approach for More Fundamental Issues with ISA 810

18. The ISA 800 and ISA 805 ED noted that the IAASB agreed to further explore at a future date, possibly as part of developing its Work Plan for 2017–2018, whether a more holistic approach to revising extant ISA 810 may be necessary. Because of the limited use of ISA 810 in practice and the feedback that it is often tailored at the national level to take into account the applicable criteria and users of such reports, DT-700 continues to believe that the IAASB’s planned approach to defer investing significant resources in a more fundamental consideration of ISA 810, including whether it is “fit for purpose”, at this time is appropriate.

19. However, it may be useful for the Explanatory Memorandum (EM) to the ED of the proposed amendments to ISA 810 to explain the use of ISA 810 in practice as the IAASB understands it. In explaining the limited nature of the proposed changes and the IAASB’s rationale for the scope of these changes, the EM could also ask respondents to provide more specific views if they believe that there are areas within ISA 810 that may warrant further attention in a future IAASB work plan and, if so, why, or if they believe that no standard such as ISA 810 is required at an international level and why. DT-700 is of the view that this information would be helpful for the IAASB in developing its consultations on its future Work Plans and assessing the relative priority of any possible additional efforts relating to ISA 810 against other priorities.
20. The post-implementation review of the new and revised Auditor Reporting standards will also afford the IAASB a further opportunity to understand from investors and others whether more widespread application of enhancements to the auditor’s report are needed, including in relation to ISA 810 reports. This review is planned for two years after the new and revised Auditor Reporting standards become effective.

**Matters for IAASB Consideration**

The IAASB is asked for their views on DT-700 recommendations set out above, including:

1. The proposed limited amendment to extant ISA 810 to address GC and OI, and the manner in which reference to a KAM section in the auditor’s report on the audited financial statements is proposed to be addressed.

2. Whether it would be appropriate to propose further changes to ISA 810 beyond those included in Agenda Item 5-B, taking into account the feedback from the respondents to the ISA 800 and ISA 805 ED as well as the feedback received from the NSS at the IAASB-NSS Liaison Group meeting in May 2015.

3. The appropriate exposure period for the conforming amendments to ISA 810.

4. Whether the EM to the ED of the proposed amendments to ISA 810 should seek views about areas within ISA 810 that may warrant further attention in a future IAASB work plan.