ISA 800/805 Exposure Draft—Feedback, Issues and Drafting Team Recommendations

Objectives of the IAASB Discussion

The objective of the IAASB discussion at its June 2015 meeting is to consider the feedback on the Exposure Draft (ED) provide input on DT-700’s recommendations and revisions to proposed ISA 800 (Revised) \(^1\) and proposed ISA 805 (Revised).\(^2\) In particular, DT-700 seeks the IAASB’s feedback on the following topics:

- Reference to, and consideration of, the auditor’s report on the complete set of financial statements in an auditor’s report of a single financial statement or a specific element, account or item of a financial statement (ISA 805 auditor’s report);
- Consideration of how ISA 260 (Revised)\(^3\) is applied in audits to which proposed ISA 800 (Revised) and proposed ISA 805 (Revised) apply as it relates to the auditor’s ability to voluntarily communicate key audit matters (KAM); and
- Other revisions to proposed ISA 800 (Revised) and proposed ISA 805 (Revised), in particular, to address the applicability of KAM, going concern (GC), other information (OI) and the naming of the engagement partner (EP).

I. Background and Introduction

1. An ED was released in January 2015 to solicit views on the IAASB’s proposed conforming amendments to ISA 800\(^4\) and ISA 805\(^5\) as a result of its new and revised Auditor Reporting standards. The IAASB agreed that amendments to ISA 800 and ISA 805 would be limited to the reporting in such engagements and are not intended to substantively change the underlying premise of audits of financial statements prepared in accordance with a special purpose framework (i.e., engagements to which ISA 800 applies), or audits of single financial statements and audits of an element (i.e., engagements to which ISA 805 applies) in accordance with the extant ISAs.

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\(^1\) Proposed ISA 800 (Revised), Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

\(^2\) Proposed ISA 805 (Revised), Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

\(^3\) ISA 260 (Revised), Communication with Those Charged with Governance

\(^4\) Proposed ISA 800 (Revised) 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. 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.

\(^5\) Proposed ISA 805 (Revised) 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 (the phrase “specific element, account or item of a financial statement” is referred to hereafter as “an element”).\(^6\) ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements
2. The proposals in the ED 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 proposed ISA 800 (Revised) and proposed ISA 805 (Revised). ISA 700 (Revised) contains the overarching reporting requirements applicable for auditor’s reports on special purpose financial statements and single financial statements or elements, with additional requirements and guidance as considered necessary in proposed ISA 800 (Revised) and proposed ISA 805 (Revised).

3. The proposed changes to ISA 800 and ISA 805 in the ED were intended to explain how the enhancements resulting from the new and revised Auditor Reporting standards apply to those engagements. Accordingly, those proposed changes were limited to and intended to:

   (a) Provide new application material to help auditors properly apply the new and revised Auditor Reporting standards in the context of an ISA 800 engagement (e.g., new application material to address new auditor reporting requirements related to GC, KAM and OI).

   (b) Align the layout and content of the illustrative auditor’s reports in ISA 800 and ISA 805, including the ordering of elements, use of headings, and terminology, with the reporting requirements in ISA 700 (Revised) (e.g., the Opinion section is now positioned first).

   (c) Update the circumstances that are assumed for each of the illustrative auditor’s reports in the ISAs to indicate whether or not the enhancements resulting from the new and revised Auditor Reporting standards are applicable. When such enhancements or circumstances are applicable to a given illustrative auditor’s report, the illustrative auditor’s report has been amended accordingly.

   (d) Incorporate changes considered necessary as a result of the IAASB’s finalization and approval of ISA 720 (Revised), which addresses auditor reporting on OI.

4. Appendix 1 to this paper provides an overview of the auditor reporting enhancements resulting from the new and revised Auditor Reporting Standards and their applicability to audits of financial statements to which ISA 800 and ISA 805 apply.

5. The ED also included a discussion of the IAASB’s plan with respect to ISA 810. Agenda Item 5 deals with ISA 810, including the feedback received on question 4 in the ED relating to ISA 810, and DT-700’s views and recommendations.

Drafting Team’s Analysis of the Feedback on the ED

6. In reviewing respondents’ feedback on the ED, DT-700 characterized the feedback into four categories and developed an approach to responding to each as follows:

   (a) Issues Relating to Reporting in the Context of Audits to Which ISA 800 and ISA 805 Apply and Which Arise from the New and Revised Auditor Reporting Standards. For example, there was a suggestion that proposed ISA 800 (Revised) and proposed ISA 805 (Revised) should explain

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6  ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements

7  ISA 720 (Revised), The Auditor’s Responsibilities Relating to Other Information, was approved by the IAASB at its December 2014 meeting, but was still subject to the Public Interest Oversight Board’s confirmation of due process followed at the time that the ED was released. The final standard has now been released and includes a conforming amendment to extant ISA 800. This conforming amendment is included in paragraph A13 of Agenda Item 4-B.

8  ISA 810, Engagements to Report on Summary Financial Statements
whether and how the principles for determining KAM in ISA 701\(^9\) 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).

(b) **Issues Arising from Proposed Changes to ISA 800/805.** For example, there were requests for clarification about the requirement for the auditor’s report on a single financial statement to include the *Material Uncertainty (MU) Related to GC* section when such a section exists in the auditor’s report on the complete set of financial statements.

(c) **Issues that Are Out of Scope.** As noted in the ED, the IAASB agreed that amendments to ISA 800 and ISA 805 would be limited to the reporting in such engagements and are not intended to substantively change the underlying premise of audits to which ISA 800 or ISA 805 apply. For example, there was a suggestion to clarify the relationship between proposed ISA 805 (Revised) to ISAE 3000 (Revised).\(^{10}\)

(d) **Issues that Existed in Extant ISA 800 and ISA 805.** DT-700 noted that there were some issues raised that were not new, but became more apparent with the issuance of the new and revised Auditor Reporting standards. For example, there was a suggestion that the 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 the engagement.

7. This paper focuses on the issues categorized in 6(a) and 6(b) above. Those issues are described below together with DT-700’s proposed recommendations, including the revisions to proposed ISA 800 (Revised) and proposed ISA 805 (Revised). The paper also addresses the rationale for DT-700’s recommendations. However, DT-700 was of the view that the issues/comments raised in the categories explained in paragraphs 6(c) and 6(d) above) went beyond the limited scope of the project to develop conforming amendments to ISAs 800 and 805 resulting from the new and revised Auditor Reporting standards. Accordingly, DT-700 recommends revisions not be made to proposed ISA 800 (Revised) and proposed ISA 805 (Revised) for issues/comments addressed by paragraphs 6(c) and 6(d) above. Those issues are summarized in **Appendix 2** to this paper.

### Matter for IAASB Consideration

1. The IAASB is asked to provide input on DT-700’s approach to responding to feedback on the ED, in particular whether they agree with DT-700’s recommendation to not address the types of issues described in paragraphs 6(c) and 6(d) and **Appendix 2** to this paper.

### II. Feedback on the ED

8. While the many respondents\(^{11}\) expressed support for the approach taken in the ED and agreed that

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\(^{9}\) ISA 701, *Communication of Key Audit Matters in the Independent Auditor’s Report*

\(^{10}\) International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information.*

\(^{11}\) Regulators and Oversight Authorities: IAIS, IRBA, MAOB, PAAB; NSS: ASB, AUASB, CNCC, HKICPA, IDW, MAAB, NZAuASB, ZAPB; Accounting Firms: BDO, EYG, GTI, PWC; Public Sector Organizations: GAO, PAS; Member Bodies and Other Professional Organizations: ACCA, AIA, CAANZ, CPAA, FEE, IIA, IBR-IRE, ICAEW, ICAI, ICAP, ISCA, KICPA, MICPA, RCA, SAICA, SMPC; Individuals and Others: DJuvenal
in principle the enhancements resulting from the new and revised Auditor Reporting standards were appropriately addressed in proposed ISA 800 (Revised) and proposed ISA 805 (Revised), there were varying degrees of concern raised about the proposed reporting requirements and application material relating to GC, KAM, and OI. Some respondents were of the view that those proposals in the ED could be enhanced with more guidance, while other respondents\(^\text{12}\) challenged the IAASB’s underlying principles. For example, of the respondents who expressed support for the IAASB’s proposals in principle twelve,\(^\text{13}\) including the member of the Monitoring Group (MG) sought further clarification about how an auditor of a single financial statement or element should: (i) determine the effects of; or (ii) refer to the auditor’s report on the complete set of financial statements, in particular as it relates to GC and OI.

9. One respondent\(^\text{14}\) expressed fundamental concerns with the IAASB’s proposed approach with respect to including a reference in the ISA 805 auditor’s report, suggesting that the IAASB should instead consider a requirement to prohibit auditors from including such a reference. As further discussed below, there were also concerns raised about how the ISA 805 auditor’s report should refer to the KAM section in the auditor’s report on the complete set of financial statements.

10. Generally, respondents were more supportive of the proposals in proposed ISA 800 (Revised). Most of the feedback on the ED related to proposed ISA 800 (Revised). Most of the feedback on the ED related to proposed ISA 800 (Revised).

**GC**

11. Though the majority of the respondents expressed support for the IAASB’s proposed requirements and guidance in both proposed ISA 800 (Revised) and proposed ISA 805 (Revised), thirteen respondents\(^\text{15}\) expressed concerns with respect to the new guidance relating to GC. Four respondents\(^\text{16}\) suggested that paragraphs 15 and A24 of proposed ISA 805 (Revised) relating to a MU related to GC be revised and that the IAASB should further consider:

- Whether the requirement in paragraph 15(b) of proposed ISA 805 (Revised) for the auditor to determine the effect of information on a MU related to GC is still needed in light of the proposed new requirement for auditors to repeat the MU related to GC section in the ISA 805 auditor’s report.\(^\text{17}\) There was a view that the requirement should reflect the need for auditor judgment to determine the reporting effect on the ISA 805 auditor’s report of having a MU related to GC in the auditor’s report on a complete set of financial statements.

- Whether the MU related to GC section should always be repeated in the ISA 805 auditor’s report when there is a MU related to GC section in the auditor’s report on the complete set of financial statements. It was noted that the relevancy of the MU related to GC may differ between the audits of a single financial statement and a complete set of financial statements.

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\(^\text{12}\) NSS: CAASB, NBA; Accounting Firms: DTT, KPMG

\(^\text{13}\) Regulators and Oversight Authorities: IAIS; IRBA, NSS: ASB, CAASB, IDW, NBA; Accounting Firms: BDO, EYG, MNP, RSM; Member Bodies and Other Professional Organizations: FEE, ICAEW, ISCA

\(^\text{14}\) Accounting Firms DTT

\(^\text{15}\) Regulators and Oversight Authorities: IAIS, IRBA; NSS: ASB, CAASB, NBA; Accounting Firms: BDO, DTT, GTI, KPMG, MNP, PWC, RSM; Member Bodies and Other Professional Organizations: FEE

\(^\text{16}\) NSS: CAASB; Member Bodies and Other Professional Organizations: IBR-IRE; Accounting Firms: DTT, PWC

\(^\text{17}\) NSS: JICPA; Accounting Firms: EYG
due to, for example, different reporting period endings, and application of different financial reporting frameworks.

- Whether more guidance is needed in proposed ISA 805 (Revised) to alert auditors that the provisions of ISA 570 (Revised)\textsuperscript{18} apply.

12. Seven respondents\textsuperscript{19} questioned the need for, or the appropriateness of, requiring explicit descriptions about management’s and the auditor’s responsibilities with respect to GC. Of those respondents, four\textsuperscript{20} were of the view that proposed ISA 800 (Revised) and proposed ISA 805 should address the fact that the GC basis of accounting may not always be relevant and, as such, ISA 570 (Revised) as well as paragraphs 33(b) and 38(b) of ISA 700 (Revised) may not always apply. Two respondents\textsuperscript{21} challenged the need for having the full description of the responsibilities about GC in an ISA 805 auditor’s report.

13. Also, the MG respondent\textsuperscript{22} suggested that the auditor’s report or the notes to the financial statements should explicitly 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.

KAM

14. With respect to KAM, all but four respondents\textsuperscript{23} 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. Of these, the MG respondent was of the view that KAM should be required for audits of complete sets of special purpose financial statements.

15. On the other hand, two accounting firm respondents were of the view that the concept of KAM is not applicable to engagements to which ISA 800 or ISA 805 apply.\textsuperscript{24} Further, one respondent,\textsuperscript{25} on behalf of the SMP community, continued to express the view that permitting voluntary application of KAM in any circumstances (i.e., in an ISA 700 report or an ISA 800 or 805 report) 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.

\textsuperscript{18} ISA 570 (Revised), Going Concern

\textsuperscript{19} Regulators and Oversight Authorities: IRBA; NSS: ASB, CAASB; Accounting Firms: BDO, DTT, GTI, KPMG

\textsuperscript{20} Regulators and Oversight Authorities: IRBA; NSS: CAASB; Accounting Firms: BDO, GTI

\textsuperscript{21} NSS: ASB; Accounting Firms: GTI

\textsuperscript{22} Regulators and Oversight Authorities: IAIS

\textsuperscript{23} Regulators and Oversight Authorities: IAIS; Accounting Firms: KPMG, MNP; Member Bodies and Other Professional Organizations: SMPC

\textsuperscript{24} Accounting Firms: KPMG, MNP

\textsuperscript{25} Member Bodies and Other Professional Organizations: SMPC
Communication with TCWG

16. Three respondents were of the view that more guidance is needed to explain how voluntary application of ISA 701 would be possible, in particular in those circumstances when a separate TCWG function does not exist. Those respondents suggested a need for paragraph A12 of proposed ISA 800 (Revised) to be revisited to determine whether new application material is needed to further explain whether, and how, an auditor might voluntarily determine KAM when TCWG also prepare the financial statements.

Reference to KAM in the Auditor’s Report on the Complete Set of Financial Statements

17. Eight respondents questioned how, and in what level of detail, KAM in the auditor’s report on the complete set of financial statements (i.e., the ISA 700 (Revised) auditor’s report or potentially the ISA 800 auditor’s report, herein referred to as “complete-set KAM”), should be referred to in the auditor’s report on a single financial statement or an element (i.e., an ISA 805 auditor’s report). Similar to the feedback received for GC, five respondents indicated that the proposed treatment for how the ISA 805 auditor’s report should refer to complete-set KAM was unclear. Those respondents:

- Asked for more guidance in proposed ISA 805 (Revised) to assist auditors to determine what is meant by the phrase “…only the relevant KAM.”
- Challenged the use of the Other Matter (OM) paragraph as illustrated in Appendix 2, Illustration 3 of proposed ISA 805 (Revised), noting that having only a generic reference to KAM was unhelpful from a user perspective and was not sufficient to allow users to understand the thought process behind the auditor’s need to make such a communication.
- Suggested drafting suggestions to improve the new application material and illustrations. For example, one respondent suggested that the alternate wording in paragraph 31 of the explanatory memorandum (EM) be used in the illustration, as it would be more helpful and relevant to users of the ISA 805 auditor’s report.
- Three respondents suggested that more guidance be provided for when the auditor is engaged to perform an engagement to which ISA 805 applies with a different period ending for reporting to the complete set of financial statements. Those respondents were of the view that it is also important that the proposed ISA include guidance for auditors for circumstances when the reference would be to another auditor’s complete-set KAM.

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26 Regulators and Oversight Authorities: IRBA; NSS: JICPA; Member Bodies and Other Professional Organizations: KICPA

27 NSS: ASB, CAASB, JICPA, NBA; Accounting Firms: DTT, PWC; Member Bodies and Other Professional Organizations: ACCA, IBR-IRE

28 Regulators and Oversight Authorities: IRBA, MAOB; NSS: ASB; Accounting Firms: EYG; Member Bodies and Other Professional Organizations: ACCA

29 The illustration in paragraph 31 of the EM to the ED states:

Other Matter

The Key Audit Matters section of our auditor’s report on the complete set of audited financial statements of the Company for the year ended December 31, 20X1 included the description(s) of [include the sub-heading of each of the key audit matters determined to be relevant]. We believe this matter also is relevant to users of this report.

30 Regulators and Oversight Authorities: IRBA; NSS: MAASB; Accounting Firms: EYG
• One respondent\(^{31}\) suggested that a new requirement be added to proposed ISA 805 (Revised) to make it clear that the reference to the existence of the KAM section that is communicated in the auditor’s report on the complete set of financial statements in the ISA 805 auditor’s report should be done using an OM paragraph in accordance with ISA 706 (Revised).\(^{32}\)

18. On the other hand, there was a respondent\(^{33}\) who was of the view that the ISA 805 auditor’s report should stand on its own and should not refer to complete-set KAM. This respondent was of the view that, the ISA 805 auditor’s report should only address KAM if the auditor had voluntarily applied ISA 701 in its entirety (i.e., it was suggested that paragraph A19 of proposed ISA 805 (Revised) be retained and that paragraph A23 be deleted).

19. Paragraph A19 of ISA 805 (Revised) was intended to explain that the ISA 805 auditor should take into account the communication of KAM in the auditor’s report on the complete set of financial statements in deciding to voluntary apply ISA 701 in the ISA 805 audit. On balance, the responses to the ED indicate that this point was not widely understood, in particular among accounting firms. Two respondents\(^{34}\) requested that proposed ISA 805 (Revised) better explain the relationship between paragraph A19 and A23 of proposed ISA 805 (Revised).

OI

20. Respondents generally expressed support for the IAASB’s approach with respect to OI, but there were suggestions made for:

• The reporting requirement related to material misstatement of OI in proposed ISA 805 (Revised) to be clarified. It was suggested that paragraph 15 of proposed ISA 805 (Revised) be revised to deal with reporting on material misstated of OI separately from the reporting on MU related to GC.\(^{35}\)

• The second sentence in paragraph A13 of proposed ISA 800 (Revised) to be more closely aligned with the terminology and principles in ISA 720 (Revised) and the other paragraphs in proposed ISA 800 (Revised).\(^{36}\)

• Revisions to the new application material relating to OI to, for example, to:
  o Address when and whether the OI section would be included in the ISA 800 or ISA 805 auditor’s report.\(^{37}\)
  o Provide illustrative wording to assist auditors of single financial statements or elements in referring to the OI section in auditor’s reports on the complete set of financial statements when it includes a statement about material misstatement of OI.
  o Provide more guidance to assist auditors in addressing the practical challenges of

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\(^{31}\) Accounting Firms: PWC

\(^{32}\) ISA 706 (Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report

\(^{33}\) NSS: CAASB

\(^{34}\) NSS: ASB; Accounting Firms: GTI

\(^{35}\) Regulators and Oversight Authorities: IRBA; Member Bodies and Other Professional Organization: FEE

\(^{36}\) NSS: IDW; Accounting Firms: DTT

\(^{37}\) Regulators and Oversight Authorities: IAIS
reporting on OI, such as the potential for redundant reporting on the same annual report in both auditor’s reports, when the auditor is engaged to audit both the complete set of financial statements, and an element of those financial statements.38

Disclosure of the Name of the EP

21. The proposals in the ED were intended to incorporate the new and revised auditor reporting requirements including those intended to enhance transparency in the public interest, such as the naming of the EP for audits of financial statements of listed entities. Accordingly, the ED included an amendment to ISA 700 (Revised) that required the disclosure of the name of the EP in the auditor’s report for audits of listed entities to which ISA 800 and ISA 805 apply.

22. The majority of the respondents were supportive of the IAASB’s proposal regarding the disclosure of the name of the EP in the ISA 800 and ISA 805 auditor’s report for audits of listed entities, while six respondents39 disagreed, 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 reporting deliverables for audits to which ISA 800 and 805 apply are seldom available in the public domain.
   - 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.
   - 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.

23. One national auditing standard setter (NSS) respondent questioned whether the requirement to disclose the name of the EP extended to audit engagements of listed entities to which proposed ISA 800 (Revised) or proposed ISA 805 (Revised) applies, suggesting a lack of understanding about the linkage between ISA 700 (Revised) and the related conforming amendment applied to the proposals in the ED.

III. Issues and Drafting Team Recommendations

The Relationship of the ISA 805 Auditor’s Report and the Auditor’s Report on the Complete Set of Financial Statements

24. DT-700’s analysis of the responses to the ED suggests that the proposed approach in the ED (i.e., proposed ISA 805 (Revised)) relating to how to consider the potential implications for the ISA 805 auditor’s report when the auditor is also engaged to audit the entity’s complete set of financial statements was generally not well-understood by the respondents. While these requirements existed in extant ISA 805,40 (in particular those relating to MU related to GC as part of Emphasis of Matter (EOM) paragraphs, and an uncorrected material inconsistency related to OI as part of OM paragraphs), having them more explicitly addressed in proposed ISA 805 (Revised) as a result of the

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38 Accounting Firms: EYG
39 NSS: CAASB; Accounting Firms: BDO, GTI, MNP; Member Bodies and Other Professional Organizations: ISCA, KICPA
40 See extant ISA 805, paragraphs 12–17.
new and revised Auditor Reporting standards suggests the need for more extensive clarifications than originally envisioned.

**Revised Requirements and Application Material**

25. Paragraphs 14–16 and A24–A26 of *Agenda Item 4-C* include revised requirements and application material to address the concerns that had been raised by respondents. The revised two separate requirements and corresponding application material clarify the two main principles intended in proposed ISA 805 (Revised) with respect to the auditor’s consideration of the auditor’s report on the complete set of financial statements, which are to:

- Determine the effect of the matters (i.e., the existence of a modified opinion, an EOM or OM paragraph, a MU related to GC section, or a statement about uncorrected material misstatement of OI) that are included in the auditor’s report on the complete set of financial statements on the ISA 805 auditor’s report in the context of the audit to which ISA 805 applies (paragraphs 14, A24 and A25 of *Agenda Item 4-C*); and

- Provide transparency to users of the ISA 805 auditor’s report about matters that are included in the auditor’s report on the complete set of financial statements (i.e., the existence of a modified opinion, an EOM or OM paragraph, a MU related to GC section, communication of KAM, or a statement about uncorrected material misstatement of OI) by including a reference to those matters in the ISA 805 auditor’s report (paragraphs 15 and A26 of *Agenda Item 4-C*).

**Determination of the Effect of the Auditor’s Report on the Entity’s Complete Set of Financial Statements**

26. DT-700 was of the view that extant ISA 805 requires auditors to consider the information in the auditor’s report on the complete set of financial statements as part of their ISA 805 audit and determine the effect on the ISA 805 report. DT-700 concluded that it is appropriate to retain this requirement. DT-700 believes it is important that auditors continue to have the flexibility to apply judgment, based on facts and circumstances in the context of audits to which ISA 805 applies, to determine the effect, if any, of matters addressed in the auditor’s report on the complete set of financial statements for the ISA 805 auditor’s report. For example, a MU related to GC identified in the auditor’s report on the complete set of financial statements should be considered in determining whether a MU related to GC exists related to the audit on the single financial statement or element.

27. The revised requirement in paragraph 14 of *Agenda Item 4-C* retains the existing principles in extant ISA 805 with respect to modified opinions, EOM and OM paragraphs, GC and OI.

28. With respect to KAM, DT-700 is of the view that it is important for proposed ISA 805 (Revised) to clarify that, regardless of whether the auditor’s report on the complete set of financial statements includes KAM, the auditor may decide to voluntarily apply ISA 701 in the context of the audit to which ISA 805 applies, and communicate those KAM in the ISA 805 auditor’s report (see paragraph A21 of *Agenda Item 4-C*).

**Reference to the Auditor’s Report on the Entity’s Complete Set of Financial Statements**

29. Questions were raised in the responses to the ED about how the auditor should determine when it is, or is not, relevant to refer in the ISA 805 auditor’s report to matters included in the auditor’s report on the complete set of financial statements (i.e., a modified opinion, EOM or OM paragraph, MU related to GC section, communication of KAM, or a statement that describes an uncorrected material...
There were concerns raised about the possibility of having inconsistency across ISA 805 auditor’s reports where the auditor determined to (or not to) include such a reference. DT-700 is of the view that it is appropriate to achieve the intended level of transparency objectively and that it is therefore not necessary or appropriate to have the auditor make a determination of relevance when making a reference to the auditor’s report on the complete set of financial statements.

The revised paragraph 15 in Agenda Item 4-C therefore seeks to provide users of an ISA 805 auditor’s report with transparency on all matters (e.g., whether there is a modified opinion, an EOM or OM paragraph, a MU relating to GC or KAM section etc.) in the auditor’s report on the complete set of financial statements in a consistent manner.

DT-700 is of the view that this reference should be a “pointer” only because the auditor would already be required to determine the effect of those matters on the audit of the single financial statement or element in applying the requirement in paragraph 14 of Agenda Item 4-C, as noted in paragraphs 26–28 above. Thus, DT-700’s recommendation to require the inclusion of a reference to the auditor’s report on the complete set of financial statement does not require auditor judgment, but simply a statement of existence of one or more of these matters in an OM paragraph required to be included in the ISA 805 auditor’s report.

Overall, DT-700 is of the view that users of the ISA 805 auditor’s report would always benefit from knowing when the auditor’s report on the complete set of audited financial statements includes a modified opinion, EOM or OM paragraph, MU related to GC section, communication of KAM, or a statement that describes an uncorrected material misstatement of OI (i.e., the ISA 805 auditor’s report should provide transparency about the auditor’s report on the complete set of financial statements). However, DT-700 also recognizes that because ISA 805 auditor’s reports are often provided for private organizations with a limited number of users, there are legitimate legal and contractual barriers that lead to the users of the ISA 805 auditor’s report not having access to the auditor’s report on the complete set of financial statements.

Consequently, DT-700 proposes to limit the applicability of this requirement to cases in which those users have unfettered access to the auditor’s report on the complete set of financial statements. In doing so, DT-700 takes into account advice from the IAASB Consultative Advisory Group regarding the accessibility of information in auditor’s reports without undue difficulty to users. Further, to properly identify the auditor’s report and related financial statements being referenced, the new requirement in paragraph 15 of Agenda Item 4-C requires the auditor to include a reference to the date of the auditor’s report on the complete set of financial statements, and the period covered by those financial statements, in particular since this date and period may differ from the date and period related to the ISA 805 engagement.

Illustrations

To further illustrate how such a reference would be made, illustration 1 in Appendix 2 to Agenda Item 4-C now include example wording for how a reference to the existence of a MU related to GC or KAM in the auditor’s report on the complete set of financial statements could be made.

Since KAM is a relatively new concept, DT-700 believed that users of the ISA 805 auditor’s report may benefit from having some context about the concept of KAM. Accordingly, though not required, Illustration 3 includes 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.”

36. In relation to GC, DT-700 agreed that it is important for the illustrations in proposed ISA 805 (Revised) to include illustrative wording for when the auditor of the single financial statement or element has concluded that a MU exists and includes a MU related to GC section, and the auditor’s report on the complete set of financial statements also includes a MU related to GC section. This is included in Appendix 2 of Agenda Item 4-C, Illustration 1. This presentation contrasts to that in Appendix 2 of Agenda Item 4-C, Illustration 3, where the auditor’s report on the complete set of financial statements includes a MU related to GC section, but the auditor of the single financial statement or element concludes that a MU does not exist.

Reference to the Auditor’s Report of an Other Auditor

37. DT-700 accepted the view raised by some respondents that there may be implementation challenges when the ISA 805 auditor’s report and the auditor’s report on the complete set of financial statements are issued by different auditors. DT-700 was of the view that it would not be appropriate, and may be prohibited by law or regulation, for an ISA 805 auditor’s report to include a reference to specific information in the auditor’s report on the complete set of financial statements, when the auditor’s report on the complete set of financial was issued by another auditor.

38. Thus, paragraph 16 of Agenda Item 4-C includes a proposed requirement that addresses circumstances when the auditor’s report on the complete set of financial statements and the ISA 805 auditor’s report are issued by different auditors. This requirement was drafted in a manner that is consistent with the requirement in ISA 710\(^{41}\) relating to references to predecessor auditors when corresponding figures are presented in the financial statements.

Reference to the Auditor’s Report on General Purpose Financial Statements

39. In some instances, an auditor’s report on a set of special purpose financial statements and auditor’s report on a set of general purpose financial statements are issued for the same entity. DT-700 accepted the view of those respondents\(^{42}\) who noted that in these cases, it would be useful for the ISA 800 auditor’s report to also include a reference, when applicable, to a modified opinion, EOM or OM paragraph, MU related to GC section, communication of KAM, or a statement that describes an uncorrected material misstatement of OI in the auditor’s report on the general purpose financial statements.

\(^{41}\) ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements*, paragraphs 10, 13 and 17.

\(^{42}\) *Regulators and Oversight Authorities: IAIS; NSS; NBA*
40. DT-700 was of the view that it would be helpful for the requirements in proposed ISA 805 (Revised) and proposed ISA 800 (Revised) to be consistent regarding how and when the ISA 800 auditor’s report references information in another auditor’s report on an entity’s complete set of general purpose financial statements. Therefore, DT-700 concluded that a similar requirement with similar application material was needed in proposed ISA 800 (Revised).

41. Paragraphs 15–16 and A21 as well as the illustrations in the Appendix of Agenda Item 4-B include those revisions. A new requirement has been added to paragraph 12 of Agenda Item 4-B to require auditors to express separate opinions if they are engaged to audit both the entity’s special purpose and general purpose financial statements and to introduce the necessary context in proposed ISA 800 (Revised) for this new requirement.

Matters for IAASB Consideration

3. The IAASB is asked to provide input on DT-700’s suggested revisions to the requirements, application material and related illustrations related to including a reference in the ISA 800 auditor’s report to matters (i.e., a modified opinion, EOM or OM paragraphs, MU related to GC section, communication of KAM, or a statement that describes an uncorrected material misstatement of the OI) in the auditor’s report on the general purpose financial statements.

Applicability of KAM in Audits to Which ISA 800 and ISA 805 Apply

42. At the time that the IAASB considered whether to require the auditor of a complete set of special purpose financial statements or of a single financial statement or element to communicate KAM in the auditor’s report, it was noted that the call for KAM came primarily from users of complete sets of general purpose financial statements of listed entities. Accordingly, the IAASB concluded that, on an initial basis, the IAASB should not require KAM to be communicated in ISA 800 or ISA 805 auditor’s reports, but rather allow for practice to emerge in this area. Recognizing that auditors’ reports on other than complete sets of general purpose financial statements of listed entities could benefit from having KAM communicated in their auditors’ reports, the new and revised Auditor Reporting standards allowed for law or regulation to require the auditor to communicate KAM in the auditor’s report in certain cases, or for the auditor to decide to voluntarily communicate KAM, in particular at the request of TCWG or management in light of the needs of the specific users for which the financial statements are prepared.43

43. DT-700 is of the view that no changes are needed to proposed ISA 800 (Revised) and proposed ISA 805 (Revised) with respect to the applicability of KAM. DT-700 confirmed that the guidance in the new and revised Auditor Reporting standards is appropriately flexible, allowing for industry regulators, SMP constituents, and NSS to promulgate law, regulation, or standards to require the communication of KAM in accordance with ISA 701 for audits of other than complete sets of general purpose financial statements of listed entities. Further, DT-700 is of the view that this issue could be usefully revisited as part of the IAASB’s planned post-implementation review of the new and revised Auditor Reporting standards.

43 See ISA 700 (Revised), paragraph A57.
Disclosure of the Name of the EP

44. With respect to the proposed requirements relating to naming the EP, DT-700 considered the respondents’ feedback, and confirmed that the IAASB’s proposed requirement to include the name of the engagement partner in ISA 800 and ISA 805 auditor’s reports for listed entities continues to be appropriate in light of the calls for increased transparency in this area.

45. The changes to paragraph A18 of Agenda Item 4-B and paragraph A23 of Agenda Item 4-C are intended to make it more explicit that the requirements relating to the name of the EP included in ISA 700 (Revised) also apply in the case of ISA 800 and ISA 805 engagements for listed entities. Accordingly, a separate requirement is not included in proposed ISA 800 (Revised) or proposed ISA 805 (Revised).

Matters for IAASB Consideration

4. Does the IAASB agree with DT-700’s recommendations relating to the applicability of KAM and the naming of the EP?

Other Revisions to ISAs 800 and 805

Consideration of ISA 260 (Revised) When ISA 701 is Voluntarily Applied

46. Paragraph A12 of Agenda Item 4-B and paragraph A11 of Agenda Item 4-C include new application material that is intended to carry forward to ISAs 800 and 805 the flexible nature of the term “those charged with governance.” Specifically, the new application material explains that ISA 260 (Revised) requires the auditor to determine who the appropriate person within the entity’s governance structure with whom to communicate, and that TCWG may be the same as those responsible for the preparation of the financial statements.

Revisions Resulting from Other IAASB Projects

Disclosures

47. Paragraph 7 of Agenda Item 4-B and paragraphs 6(c) and A2 of Agenda Item 4-C reflect changes resulting from the Disclosures project. At its March 2015 meeting, the IAASB approved the International Standards on Auditing (ISAs), Addressing Disclosures in the Audit of Financial Statements–Revised ISAs and Related Conforming Amendments, subject to confirmation of due process by the Public Interest Oversight Board.

48. The wording changes to these paragraphs are included in shaded text in Agenda Items 4-B and 4-C, and are not subject to further changes. These have been included for information purposes, and DT-700 is not seeking feedback on those revisions.

49. Paragraphs 7, A9, A14 and A16 of Agenda Item 4-B include suggested changes in terminology that in DT-700’s view, should have also been conforming amendments as a result of the disclosures.
project. Those changes have been discussed with the Staff and Chair of the recently completed Disclosures Project.

Other Information (ISA 720 (Revised))

50. DT-700 is of the view that some of its suggested revisions to proposed ISA 800 (Revised) and proposed ISA 805 (Revised) to clarify the applicability of ISA 720 (Revised) may need to be further considered in the context of ISA 720 (Revised) more broadly. DT-700 has proposed changes to align with the recently released ISA 720 (Revised) and draws the Board's attention to them seeking views as to whether they are consistent with the Board's views with respect to ISA 720 (Revised) and its applicability in engagements to which ISA 800 and ISA 805 apply.

Other Editorial Changes and Corrections

51. Agenda Items 4-B and 4-C also include several minor changes resulting from editorials deemed appropriate by DT-700, including those raised by respondents in their responses to the ED. Those changes are not deemed to be substantive in nature.

52. Subsequent to the June 2015 IAASB meeting, paragraph references to ISA 700 (Revised) with Agenda Items 4-B and 4-C will be updated to reflect conforming changes resulting from the ISA 720 and Disclosures projects.

Matters for IAASB Consideration

5. The IAASB is asked to provide input on the other revisions to proposed ISA 800 (Revised) and proposed ISA 805 (Revised) in Agenda Items 4-B and 4-C as discussed above.
Overview of the Enhancements Addressed by the New and Revised Auditor Reporting Standards and Their Applicability to ISA 800 and ISA 805 Engagements

The following table summarizes the IAASB’s proposed enhancements (reproduced from the ED) resulting from the new and revised Auditor Reporting standards, including the IAASB’s decisions regarding their applicability in the context of audits to which ISA 800 and ISA 805 applies.

<table>
<thead>
<tr>
<th>Enhancements Resulting from New and Revised Auditor Reporting ISAs</th>
<th>Applicability to an ISA 800 Engagement</th>
<th>Applicability to an ISA 805 Engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td>New section in the auditor’s report to address KAM for audits of complete sets of general purpose financial statements of listed entities</td>
<td>ISA 701 applies only when law or regulation requires the communication of KAM in an ISA 800 engagement, or when the auditor decides to communicate KAM on a voluntary basis</td>
<td>ISA 701 applies only when law or regulation requires the communication of KAM in an ISA 805 engagement, or when the auditor decides to communicate KAM on a voluntary basis</td>
</tr>
<tr>
<td>GC:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• A separate section with the heading “Material Uncertainty Related to Going Concern” is required in the auditor’s report when a MU exists about the entity’s ability to continue as a GC.</td>
<td>ISA 570 (Revised) and the requirements in paragraphs 29, 33(b), and 38(b)(iv) of ISA 700 (Revised) apply when the GC basis of accounting is relevant.</td>
<td>ISA 570 (Revised) and the requirements in paragraphs 29, 33(b), and 38(b)(iv) of ISA 700 (Revised) apply when the GC basis of accounting is relevant.</td>
</tr>
<tr>
<td>• Consistent with extant ISA 570, the auditor’s opinion is modified when required under the circumstances of the engagement.</td>
<td></td>
<td>If the auditor’s report on the complete set of financial statements includes a “Material Uncertainty Related to Going Concern” section, this section is required to be repeated in the ISA 805 auditor’s report.</td>
</tr>
<tr>
<td>• New requirements to describe the respective responsibilities of management and the auditor for GC in all auditor’s reports</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: This table is reproduced from paragraph 10 of the ED, but further summarized where needed to be appropriate. The references are to version of ISA 700 (Revised) as approved at September 2014 and released in January 2015 which is available at www.iaasb.org/auditor-reporting. It does not include DT-700’s recommendations.
<table>
<thead>
<tr>
<th>Enhancements Resulting from New and Revised Auditor Reporting ISAs</th>
<th>Applicability to an ISA 800 Engagement</th>
<th>Applicability to an ISA 805 Engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td>• If events or conditions have been identified that may cast significant doubt on the entity’s ability to continue as a GC but the auditor concludes that no MU exists, new requirement to evaluate the adequacy of disclosure about these events or conditions in view of the requirements of the applicable financial reporting framework</td>
<td>Required – addressed by paragraph 28(c) of ISA 700 (Revised).</td>
<td>Required – addressed by paragraph 28(c) of ISA 700 (Revised).</td>
</tr>
<tr>
<td>Explicit statement required in all auditor’s reports that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor’s other ethical responsibilities in accordance with these requirements, with identification of the jurisdiction of origin of those requirements or reference to the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code)</td>
<td>Required for audits of listed entities (see new application material in proposed ISA 800 (Revised) and proposed conforming amendments to ISA 700 (Revised)).</td>
<td>Required for audits of listed entities (see new application material in proposed ISA 805 (Revised) and conforming amendments to ISA 700 (Revised)).</td>
</tr>
<tr>
<td>Disclosure of the name of the EP in the auditor’s report for audits of financial statements of listed entities with a “harm’s way” exemption</td>
<td>Required – addressed by paragraphs 23 and 28 of ISA 700 (Revised).</td>
<td>Required – addressed by paragraphs 23 and 28 of ISA 700 (Revised).</td>
</tr>
<tr>
<td>Opinion section required to be presented first, followed by the Basis for Opinion section, unless law or regulation prescribe otherwise</td>
<td>Required – addressed by paragraphs 38–40 of ISA 700 (Revised).</td>
<td>Required – addressed by paragraphs 38–40 of ISA 700 (Revised).</td>
</tr>
<tr>
<td>Improved description of the responsibilities of the auditor and key features of an audit.</td>
<td>Required – addressed by paragraphs 38–40 of ISA 700 (Revised).</td>
<td>Required – addressed by paragraphs 38–40 of ISA 700 (Revised).</td>
</tr>
</tbody>
</table>
Appendix 2

Feedback that Goes Beyond Scope of the ED

1. As noted in paragraph 6 of this paper, some respondents provided feedback and suggested amendments to proposed ISA 800 (Revised) and proposed ISA 805 (Revised) that went beyond reporting and, as such, may result in substantively changing the underlying premise of audits of financial statements to which ISAs 800 and 805 apply. This feedback is summarized below, but has not been further considered by DT-700.

Issues that Are Out of Scope

2. Three respondents\(^{44}\) requested more guidance to clarify the interaction between ISA 800 and ISA 805, in particular as it related to how paragraphs A16–A19 would apply in the context of an audit on a single financial statement, or an element in accordance with a special purpose framework when an entity’s complete set of financial statements is prepared in accordance with International Financial Reporting Standards (IFRSs), or local general accepted accounting principles (GAAP).

Issues that Existed in Extant ISA 800 and ISA 805

Issues Raised by a MG Member

3. The MG member\(^{45}\) suggested that the requirements for auditor communications with TCWG in the context of audits of special purpose financial statements be expanded. Specifically, it was suggested that, whenever the auditor’s report is publicly available, auditor communication with TCWG should be required, even though TCWG do not have responsibility for overseeing the preparation of special purpose financial statements (i.e., change paragraph A12 of proposed ISA 800 (Revised)). DT-700 has suggested revisions to paragraph A12 of Agenda Item 4-A to clarify its view that ISA 260 (Revised) is always applicable to ISA audits.

4. This respondent also suggested a change to paragraph 6(b) of proposed ISA 800 (Revised), explaining that, in the context of a special purpose framework, requirements related to presentation and content of the notes can be less detailed and formalized than, for instance, under IFRSs. It was further explained that an auditor should have a different approach depending on whether the financial reporting framework may be a fair presentation framework or a compliance framework. The respondent was of the view that in this case it was important for the IAASB to emphasize in proposed ISA 800 (Revised) the difficulties specific to assessing adequacy of the notes in this particular context.

5. With respect to the scope of proposed ISA 805 (Revised), this respondent also suggested that it would be beneficial for the IAASB to provide more clarity on the definition of what could be considered a “single financial statement”. This respondent also suggested that the meaning of the term “not published together” in paragraph 18 of proposed ISA 805 (Revised) should be further explained. For instance, if both reports are available at the same time on the website of the entity, should they be considered as published together?

\(^{44}\) Regulators and Oversight Authorities: IAIS, IRBA; Accounting Firms: PWC

\(^{45}\) Regulators and Oversight Authorities: IAIS
Comments from Other Respondents

6. One respondent was of the view that using the term “...adapted as necessary in the necessary circumstances of the engagement...” in paragraph 11 of proposed ISA 805 (Revised), but not in paragraph 11 of proposed ISA 800 (Revised), was confusing, in particular with respect to the application of reporting requirements relating to GC.

7. With respect to GC, two respondents noted that there may be practical application challenges resulting from the application of ISA 570 (Revised) when proposed ISA 800 (Revised) and proposed ISA 805 (Revised) apply, in particular when the auditor of a single financial statement is different from the auditor of the entity’s complete set of general purpose financial statements.

8. One respondent asked that the IAASB clarify and better explain the linkage between paragraph A6 of ISA 805 and paragraph 5 of ISAE 3000 (Revised).

9. One respondent suggested edits to paragraph A7 of proposed ISA 805 (Revised) to clarify the applicability and scope of the standard.

46 Accounting Firms: RSM
47 Accounting Firms: BDO, KPMG
48 Member Bodies and Other Professional Organizations: ACCA
49 Accounting Firms: DTT