

ISA 810, *Engagements to Report on Summary Financial Statements: Options for a Way Forward*

Summary of the IAASB's Discussions at Its September 2014 Meeting

Proposed ISA 810 (Revised)

The Board had mixed views about the extent of changes that should be made to the auditor's report on summary financial statements (ISA 810 auditor's report). On one hand, there were three Board members who were of the view that the changes to the ISA 810 auditor's report should be minimal given that the objective is to report on the derivation of the summary financial statements from the audited financial statements and not to express an opinion on the fairness of the summary financial statements. Accordingly, the inclusion of additional information in an ISA 810 auditor's report may give the impression that the engagement is something other than what is intended. Those Board members noted that the ISA 810 auditor's report should not be viewed by users as a substitute for reading the full financial statements or the auditor's report thereon and that it is therefore important that the summary auditor's report provide reference to, without repeating the details of, the full auditor's report. Those Board members also cautioned against including additional audit-related information in the ISA 810 auditor's report because the summary financial statements may not have the context of all the information that is contained in the audited financial statements that is necessary for users' full understanding.

On the other hand, three Board members expressed support for DT-700's proposal set forth in Agenda Items 5-A and 5-D,¹ noting that it was in the public interest to highlight certain information from the full auditor's report in the ISA 810 auditor's report (e.g., description of key audit matters (KAM), going concern (GC) related to a material uncertainty (MU), Emphasis of Matter (EOM) paragraph), as it would increase the transparency of the matters included in the full auditor's report for users of the ISA 810 auditor's report.

The IAASB debated the merits of the varying viewpoints, as follows:

- Three Board members suggested that the IAASB develop an approach that provides maximum flexibility for the auditor to tailor the ISA 810 auditor's report based on the specific needs of the users and based on the circumstances of the engagement. One Board member cautioned against being too prescriptive about what the auditor should publicly communicate in their ISA 810 auditor's report.
- One Board member noted that it was important to highlight information about the audit in the ISA 810 auditor's report with sufficient details so as to serve as a teaser to those users who may not otherwise read the full auditor's report. This Board member was also of the view that this approach was a useful way of addressing those users' concerns about information overload in financial reporting.
- One Board member pointed out that it is necessary to rethink what information should be included in an ISA 810 auditor's report in light of the increasing complexity of financial reporting and more informative auditor's reports. He added that, with the finalization of the new auditor reporting enhancements, it would be useful to revisit the principles in extant ISA 810 to determine whether they are still fit for purpose in the current environment.

¹ Agenda Items 5-A and 5-D are available at the September 2014 IAASB Meeting page at: <http://www.ifac.org/auditing-assurance/meetings/new-york-usa-7>

- Prof. Schilder noted that it is important for users to have a full understanding of the auditor's report on the audited financial statements. He also agreed with the suggestions that were made for having ISA 810 requirements that allow auditor maximum flexibility to tailor their ISA 810 auditor's reports based on specific user needs and circumstances of the engagement.

Way Forward

The Board agreed to consider further research aimed at understanding how ISA 810 is being used in practice before finalizing an Exposure Draft (ED). Accordingly, the Board agreed to further consider an appropriate approach and timing for ISA 810 in view of the results from the additional information-gathering activities.

Objectives of the IAASB Discussion

The objective of the IAASB discussion at its December 2014 meeting is to determine a way forward with respect to ISA 810, taking into account the information obtained from Staff's research activities.

Introduction

1. At its September 2014 meeting, the IAASB approved new and revised standards to enhance auditor reporting for audits of complete sets of general purpose financial statements.² At that meeting, the IAASB also considered recommendations from the DT-700 regarding the consequential amendments that would be appropriate for auditor reporting when the auditor is also engaged to report on summary financial statements, as summarized above. The IAASB agreed to obtain more information about how ISA 810 was used in practice to inform its next steps regarding ISA 810.

Issues and Recommendations

Information Requested

2. In October 2014, IAASB Staff solicited views from National Auditing Standard Setters (NSS), the Forum of Firms (FOF), and the IFAC Small and Medium Practices Committee (SMPC) to obtain views about the following:
 - Whether there is a law, regulation or national auditing standard in their jurisdiction that prescribes auditor reporting responsibilities when summary financial statements are issued and, if so, a request to provide the details of any such law, regulation or national auditing standard.
 - The nature of engagements for which ISA 810 is being used in their respective jurisdictions or by accounting firms. Respondents were asked to indicate the frequency with which engagements to report on summary financial statements (ISA 810 engagements) are undertaken; and to provide examples of auditor's reports that have been issued based on applying the requirements and guidance in ISA 810 or a standard with similar requirements and guidance (ISA 810 auditor's reports).
 - Whether it is common practice for management to establish their own applicable criteria or

² At its September 15-19, 2014 meeting, the IAASB approved its new and revised Auditor Reporting standards and related conforming amendments – ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*; ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*; ISA 570 (Revised), *Going Concern*; 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*; and ISA 260 (Revised), *Communication with Those Charged with Governance*.

whether there are commonly applied criteria established by accounting standard setters within their individual jurisdictions. Respondents were also asked for examples of the specific source of the applied criteria used to prepare summary financial statements.

Feedback from ISA 810 Research

4. Feedback was received from 20 respondents, comprising nine NSS, seven SMPC members, and four FOF members. Appendix 1 includes a listing of the respondents to the Staff's request for information about ISA 810 (herein forth referred to as the Staff Request).

Auditor Reporting Responsibilities and Issuance of Summary Financial Statements

5. Overall, the feedback from the Staff Request indicated that:
- Summary financial statements are being prepared and ISA 810 engagements are being performed, but are often not required in most jurisdictions. In some jurisdictions where ISA 810 engagements are performed,³ law, regulation or national auditing standards exist. In those jurisdictions, ISA 810 serves as the starting point for developing this jurisdiction-specific guidance. In other jurisdictions⁴ there are no national requirements and thus ISA 810 would apply if an ISA 810 engagement was to be performed (see paragraph 6 below for frequency of ISA 810 engagements).
 - The only jurisdiction⁵ that requires the preparation of summary financial statements is South Africa (see Appendix 2 for an illustration). This requirement applies to entities that are listed on the Johannesburg Stock Exchange (JSE), and it is required that they provide summaries of the audited annual financial statements at the same time that the issuer's annual financial statements are distributed to the shareholders and submitted to the JSE.⁶ An auditor's report on those summary financial statements is not required, but a client may request such an engagement, which would be conducted in accordance with ISA 810.
 - In Hong Kong, listed entities⁷ are permitted to prepare and distribute summary financial reports that include summary financial statements in place of full annual reports, provided that those listed entities have ascertained the wishes of shareholders, and complied with legal requirements and provisions of their own memorandum and articles of association. Local regulation in Hong Kong requires auditor reporting on those summary financial reports.⁸
 - ISA 810 was not adopted in the UK or Spain. Until recently, UK law permitted, but did not require companies incorporated under the Companies Act 2006 to provide summary financial statements. The law addressed matters relating to minimum content, which included a requirement for an auditor's report in certain circumstances. However, under new legislation issued in 2013, UK companies can provide a stand-alone "Strategic Report with Supplementary Material" in place of the company's full accounts and reports, and the

³ ISA 810 engagements are conducted, but not required, in Australia, Canada, Hong Kong, Netherlands, Singapore, and the US. In those jurisdictions, while national law or regulation that is equivalent to ISA 810 exists to provide guidance to auditors, the decision to undertake an ISA 810 engagement is made by the client and the auditor (i.e., is a voluntary engagement).

⁴ Argentina, Austria, Brazil, France, Germany, Japan, Malaysia, Mexico, Russia, Spain, Sweden, and Tunisia do not have national requirements or laws in place relating to engagements to report on summary financial statements.

⁵ In Canada, Rule 1400 issued by the Investment Industry Regulatory Organization of Canada (IIROC) requires investments dealers to issue a special purpose summary statement of financial condition which must be audited.

⁶ Section 3.21(b) of the JSE Limited Listings Requirements (Second Edition)

⁷ Listed entities on the Hong Kong Exchanges and Clearing Limited (HKEx)

⁸ Section 5 of the Hong Kong Companies Ordinance

law was repealed. As noted above, ISA 810 was never adopted in the UK. An auditor bulletin relating to the auditor's responsibilities for summary financial statements was published in 2008 but withdrawn after the new legislation was introduced. An auditor's report is not required for the Strategic Report and Supplementary Material.

- In Europe, EU Directives permit some incorporated business enterprises to file extracts of their statutory financial statements with the national commercial register, provided that a copy of the complete auditor's report and an explanation that this report is the report issued with the full set of financial statements be provided together with the extracts.⁹ This practice has been extended to other circumstances, such as when summary financial statements or extracts are published in the "glossy" summary annual reports or in the press. One respondent noted that because the auditor's report in future will be considerably longer due to the changes resulting from the auditor reporting project, the practice of providing a copy of the complete auditor's report together with the summary financial statements or extracts from the full set of financial statements may not be tenable in future. For these reasons, ISA 810 with the shorter report on the summary financial statements may provide a practical solution.

Nature and Frequency of ISA 810 Engagements

6. Generally, the responses to the Staff Request indicated that engagements to report on summary financial statements are very rare. NSS research conducted in Canada in 2011 indicate that engagements to report on summary financial statements are most common among not-for-profit organizations. This is also the case in the UK.¹⁰

Criteria Used by Management to Prepare Summary Financial Statements

7. In Australia,¹¹ Hong Kong,¹² Japan,¹³ South Africa,¹⁴ and the UK,¹⁵ there are established criteria set out by law, regulation or national accounting standards addressing management's preparation of summary financial statements. Appendix 2 includes illustrative wording in relation to the established criteria that are applicable in South Africa. The national auditing standard in Hong

⁹ See EU Fourth and Seventh Directives (replaced by the recently issued EU Accounting Directive)

¹⁰ In the UK, certain Charities produce summarized financial statements. There is no statutory requirement for the auditor of a non-company charity to report on summarized financial statements. However, if the full financial statements have been audited, the "Charities SORP 2005**" requires a statement from the auditor giving an opinion as to whether or not the summarized financial statements are consistent with the full financial statements. However, this requirement does not apply to the incoming Charities SORP 2015.

¹¹ In Australia, the Corporations Act 2001 specifies that concise financial reports are to be prepared in accordance with AASB 1039 Concise Financial Reports. AASB 1039 sets out the minimum content for preparers of the concise financial report and that the report is derived from, and consistent with, the entity's financial report. AASB 1039 guidance explains that "the accounting policies relating to recognition and measurements applied in the preparation of a concise financial report to be the same as those adopted in the preparation of the financial report."

¹² In Hong Kong, the form and contents of the summary financial statements are set out in the Companies (Summary Financial Reports of Listed Companies) Regulation and Companies and are referenced in Hong Kong Standard on Auditing (HKSA) 810, *Engagements to Report on Summary Financial Statements*.

¹³ In Japan, Article 440 of Companies Act requires a large company to give public notice of its summary balance sheet and summary profit and loss statement ("concise financial statements") which are derived from audited financial statements prepared in accordance with Companies Act. Articles 136 to 146 of Ordinance on Company Accounting stipulate criteria to be used in preparing concise financial statements. For example, they stipulate subheadings to be used, and note disclosures in audited financial statements to be included in concise financial statements.

¹⁴ In South Africa, law (Sections 8.57 to 8.61 of the JSE LR) specifies the established criteria for management's preparation of summary financial statements.

¹⁵ In the UK, the Charity SORP 2005 includes criteria for management's preparation of the summary financial statements.

Kong (HKSA 810) also includes illustrative wording for the auditor's report to describe the established criteria to prepare summary financial statements.

8. A review of the illustrative auditor's reports that were issued in jurisdictions where no established criteria exists (e.g., Canada) indicates that the *Management's Responsibility* section often referenced a note in the summary financial statements or included a generic statement as illustrated below.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements in accordance with the criteria disclosed in the summary financial statements.

[Or]

Management is responsible for the preparation of a summary of the audited financial statements so as to present briefly the financial situation of the organization in the annual financial report.

Considerations in Determining a Way Forward

9. Because the Staff Request sought views from a limited population in a limited time period, further consultation might be viewed as necessary in order for the IAASB to be conclusive about how ISA 810 is used in practice globally. However, given the responses came from NSS and firms across a relatively diverse geographic distribution of the largest financial markets, it is unlikely new information would suggest more widespread use of ISA 810. Accordingly, Staff is of the view that the information received from the Staff Request can be reasonably relied upon in order to determine a way forward.

Options

10. Staff is of the view that there are three possible options for the way forward with respect to possible changes to ISA 810. The IAASB could:
 - (a) *Move forward in the near term with limited changes to align ISA 810 to the auditor reporting enhancements resulting from the final Auditor Reporting standards.* This option would require the IAASB to come to a consensus view about: (i) the extent of the auditor reporting enhancements that should apply to ISA 810 engagements (e.g., the disclosure of the name of the engagement partner, and requirement to have the Opinion section first); and (ii) what and how much information about the complete set audited financial statements should be referenced or repeated in the ISA 810 auditor's report (e.g., KAM for audits of financial statements of listed entities).
 - (b) *Develop a formal IAASB consultation paper (CP) in the near term to help assess whether ISA 810 remains fit for purpose, and whether there is global demand for undertaking an ISA 810 project.* An ISA 810 project could potentially require a more substantive revision of ISA 810, including the specific procedures that are required, and what information should be included in an ISA 810 auditor's report in light of the increasing complexity of financial reporting and more informative auditor's reports. Under this option, a new project proposal informed by this consultation would be necessary.
 - (c) *Take no action related to ISA 810 in 2015-2016, and potentially consider the need for action in connection with the consultation on and development of the Work Plan for 2017–2018.* This option would allow the Board and its stakeholders the opportunity to consider the demand for an ISA 810 project in view of its other priorities in a subsequent strategy period. Undertaking such a project in the future, would still require the IAASB, at that time, to

determine a more specific action along the lines of (a) or (b) above.

11. The table below summarizes the pros and cons to the options described above.

Option A: Move Forward with Limited Changes in the Near-term	Option B: Develop a Formal CP in the Near-term	Option C: Take no action in in 2015-2016
<ul style="list-style-type: none"> Having the ISA 810 report aligned to other ISA auditor's reports with a reference to the auditor reporting enhancements (i.e., KAM, GC, name of EP) could serve as a teaser to encourage reference to the auditor's report on the complete set of financial statements (i.e., the ISA 700 auditor's report). However, including references to the new information in the ISA 700 auditor's report could: <ul style="list-style-type: none"> Result in ISA 810 auditor's reports that are potentially longer than the summary financial statements. Be confusing to users or lead to over-reliance on the ISA 810 auditor's report, in light of the nature of an ISA 810 engagement. 	<ul style="list-style-type: none"> Allows a more holistic approach to revising the standard in light of the current financial reporting environment. Further specificity within the standard may not be feasible (or necessary) in an international context in light of the fact that criteria for such engagements are specified in law, regulation or national accounting standards. If undertaken as part of the IAASB's 2015-2016 Work plan would divert resources away from other priority projects that are either ongoing or scheduled to begin as a result of the IAASB's recently approved Strategy and Work Plan. 	<ul style="list-style-type: none"> Would allow the IAASB and its stakeholders more time to consider the nature and extent of any changes needed to ISA 810 as part of its routine outreach program May be more feasible and effective for NSS and those jurisdictions / firms that perform ISA 810 engagements to consider enhancements to their standards or guidance in light of their national environments.

Staff Recommendation

12. As illustrated above, there are benefits and disadvantages to each of the options under consideration. It was suggested at the September 2014 Consultative Advisory Group (CAG) meeting that the increased use of integrated reports (which include summary financial statements) may have an effect on the demand for ISA 810 engagements. More broadly, as financial statements become more complex, investors and others may increasingly look to entities to provide summary financial statements. In this case, accounting standard setters have a role to play in establishing the criteria for such reporting – however, Staff notes that neither International Financial Reporting Standards (IFRSs), nor US Generally Accepted Accounting Principles (GAAP) currently set out criteria for summary financial statements.
13. On the one hand, incorporating changes made in the Auditor Reporting project within ISA 810 may be viewed as in the public interest. However, nothing in the current structure of ISA 810 would prohibit jurisdictions from building on extant ISA 810 to provide further guidance for auditors, within the context of their national environments, in particular in light of the finalization of the Auditor Reporting Standards. For example, this guidance could address making a reference to the auditor's report on the complete set of financial statements, or taking into account the enhancements addressed by the Auditor Reporting standards (e.g., presenting the Opinion

section first or disclosing the EP name in reports on summary financial statements of listed entities).

14. In addition, undertaking further work on ISA 810 now would result in the need for the Board to re-assess its priorities in light of new important initiatives that have just commenced or are scheduled to do so in early 2015.
15. Staff is therefore of the view that it would be preferable to defer changes to ISA 810 at this time. NSS will already need to consider whether tailoring to the final Auditor Reporting standards is necessary and can determine whether any changes are needed to their ISA 810 equivalents concurrently, taking into account the nature and extent of use of such engagement in their respective jurisdictions. The post-implementation review of the Auditor Reporting standards could also be used to further highlight whether there is greater demand for ISA 810 engagements than currently exists, and the Board can consider whether it would be appropriate to revise ISA 810 accordingly.

Matter for IAASB Consideration

1. The IAASB is asked to consider the information presented in this paper, including the options and Staff Recommendation, provide views as to an appropriate way forward with respect to ISA 810.

List of Respondents to the Request for Information on ISA 810

#	Abbrev.	Respondent (20)	Region
National Auditing Standard Setters (9)			
1.	AICPA	American Institute of CPAs - Auditing Standards Board	NA
2.	AUASB	Australian Auditing and Assurance Standards Board	AP
3.	CAASB	Canadian Auditing and Assurance Standards Board	NA
4.	CNCC/CSO EC	Compagnie Nationale des Commissaires aux Comptes & Conseil Supérieur de l'Ordre des Experts-Comptables	EU
5.	FRC	Financial Reporting Council (UK)	EU
6.	HKICPA	Hong Kong Institute of Certified Public Accountants	AP
7.	IDW	Institut der Wirtschaftsprüfer in Deutschland e.V.	EU
8.	JICPA	Japanese Institute of Certified Public Accountants	AP
9.	IRBA	Independent Regulatory Board for Auditors	MEA
Forum of Firm Members/Accounting Firms (4)			
10.	BDO	BDO International Limited	GLOBAL
11.	DTT	Deloitte Touche Tohmatsu Limited	GLOBAL
12.	PWC	PricewaterhouseCoopers International Limited	GLOBAL
13.	RSM	RSM International	GLOBAL
SMP Committee Member (7)			
14.	A&P	SMP Representative for Sweden	EU
15.	MEX	SMP Representative for Mexico	SA
16.	RUS	SMP Representative for Russian	MEA
17.	ARG	SMP Representative for Argentina	SA
18.	BRA	SMP Representative for Brazil	SA
19.	CA	SMP Representative for Canada	NA
20.	TUN	SMP Representative for Tunisia	MEA

Appendix 2

Below is an illustration from South Africa of an auditor's report on summary financial statements, as well as a suggested note to be included the summary financial statements on Basis of Preparation. Both of these are included in the South African Independent Regulatory Board for Auditors Guide for Registered Auditors, *Reporting on Financial Information Contained in Interim, Preliminary, Provisional and Abridged Reports required by the JSE Listings Requirements*.

Illustration 4: Auditor's report on summary financial statements contained in an abridged report.

Report dated later than the auditor's report on the complete set of financial statements.

Circumstances include the following:

- The issuer is a company
- An unmodified opinion was expressed on the complete set of financial statements from which the summary financial statements are derived
- The auditor's report on the abridged report is dated later than the date of the auditor's report on the financial statements from which the summary financial statements are derived
- Unaudited information presented with the summary financial statements is sufficiently differentiated from the audited information
- Unmodified opinion (ISA 810, paragraph 9)

Independent Auditor's Report on Summary Financial Statements

To the Shareholders of ABC Limited

The summary consolidated financial statements of ABC Limited, contained in the accompanying abridged report, which comprise the summary consolidated statement of financial position as at 31 December 20x1, the summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of ABC Limited for the year ended 31 December 20x1. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated 12 February 20x2. Our auditor's report on the audited consolidated financial statements contained an Other Matter paragraph: "*Other reports required by the Companies Act*" (refer below). Those consolidated financial statements and the summary consolidated financial statements do not reflect the effect of events that occurred subsequent to the date of our report on those financial statements¹⁶.

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of ABC Limited.

Director's Responsibility for the Summary Consolidated Financial Statements

The directors are responsible for the preparation of the summary consolidated financial statements in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, set

¹⁶ If the report is dated on the same day as the auditor's report, do not include the sentence "*Those consolidated financial statements and the summary consolidated financial statements do not reflect the effect of events that occurred subsequent to the date of our report on those financial statements*" in the auditor's report

out in note x to the summary financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements, and for such internal control as the directors determine is necessary to enable the preparation of the summary consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, Engagements to Report on Summary Financial Statements.

Opinion

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of ABC Limited for the year ended 31 December 20x1 are consistent, in all material respects, with those consolidated financial statements, in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, set out in note x to the summary financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Other reports required by the Companies Act¹⁷

The “other reports required by the Companies Act” paragraph in our audit report dated 12 February 20x2 states that as part of our audit of the consolidated financial statements for the year ended 31 December 20x1, we have read the Directors’ Report, the Audit Committee’s Report and the Company Secretary’s Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated financial statements. These reports are the responsibility of the respective preparers. The paragraph also states that, based on reading these reports, we have not identified material inconsistencies between these reports and the audited consolidated financial statements. The paragraph furthermore states that we have not audited these reports and accordingly do not express an opinion on these reports. The paragraph does not have an effect on the summary consolidated financial statements or our opinion thereon.

Auditor's Signature

Name of individual registered auditor

Capacity if not a sole practitioner: e.g. Director or Partner

Registered Auditor

Date of auditor's report

Auditor's address

Suggested Note in the Summary Financial Statements on Basis of Preparation

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, and the requirements of the Companies Act applicable to summary financial statements. The Listings Requirements require abridged reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting

¹⁷ The paragraph “Other reports required by the Companies Act”, in an auditor's report on a complete set of audited financial statements, is regarded as an “other matters paragraph”. ISA 810.17 requires such paragraphs to be included in the auditor's report on an entity's summary financial statements.

Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the consolidated financial statements, from which the summary consolidated financial statements were derived, are in terms of International Financial Reporting Standards and are consistent with the accounting policies applied in the preparation of the previous consolidated annual financial statements.