

### Staff Review and Recommendations – ISA 810, *Engagements to Report on Summary Financial Statements*

#### Summary of the IAASB's Discussions at Its December 2014 Meeting

##### ISA 810—OPTIONS FOR A WAY FORWARD

The Board explored the merits and drawbacks of three options, discussed in Agenda Item 9-A, for a way forward with respect to ISA 810.<sup>1</sup> Reflecting on its September 2014 discussions about potential consequential amendments to ISA 810 resulting from the new and revised Auditor Reporting standards, the Board noted that the nature of an ISA 810 engagement was substantively different from an audit of financial statements, and concluded that it was necessary to first obtain a better understanding of the nature and use of ISA 810 on a global basis. The IAASB also considered feedback obtained from an informal survey of national auditing standard setters (NSS) and accounting firms about the use of extant ISA 810 and how the standard was adapted at the national level.

The IAASB noted that ISA 810 is used as a starting point for jurisdictions in which auditors are engaged to report on summary financial statements, and that those jurisdictions have further tailored ISA 810, and in some cases supplemented it with national guidance to reflect the facts and circumstances that are relevant within the context of their national environments.

##### *Next Steps*

The IAASB had mixed views about the way forward with respect to ISA 810. On one hand, some IAASB members were of a view that there was a potential public interest benefit in expanding the requirements in extant ISA 810 to require, at a minimum, a statement indicating that reading the auditor's report on the summary financial statements is not a substitute for reading the auditor's report on the complete set of financial statements. Those IAASB members expressed the importance of aligning the requirements in extant ISA 810 that are truly conforming in nature to the new and revised Auditor Reporting standards in order to preserve the similarity that exists in the extant standards.

On the other hand, some IAASB members were of the view that the objective of an ISA 810 engagement is for the auditor 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 those summary financial statements. Those IAASB members were of a strong view that requiring the auditor to include or refer to additional information (e.g., KAM, GC and OI) in the auditor's report on summary financial statements may give the impression that the engagement is something other than what is intended, would potentially lengthen the auditor's report, and could be misleading if the underlying issues were not disclosed in a similar manner in the summary financial statements.

The IAASB agreed:

- To defer its decision about whether conforming amendments should be made to extant ISA 810.
- That Staff will undertake, and report back in March 2015, a detailed technical review of extant 810 for the purpose of identifying conflicts, if any, which would make extant ISA 810

<sup>1</sup> ISA 810, *Engagements to Report on Summary Financial Statements*

inoperable in relation to the new and revised Auditor Reporting standards.

- 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.
- To include information in the ISA 800<sup>2</sup> and ISA 805<sup>3</sup> exposure draft about its decision to defer developing consequential amendments to ISA 810 to take into account the new and revised Auditor Reporting standards, and ask a question about the appropriateness of this deferral.

*IAASB Consultative Advisory Group (CAG) Chairman's Remarks*

Ms. de Beer noted that an expectation of conforming amendments existed. She, however, expressed support for the IAASB's decision, subject to ensuring that the IAASB's plans for ISA 810 be discussed with the CAG at its March 2015 CAG meeting.

**Objectives of the IAASB Discussion**

The objectives of the IAASB discussion at its March 2015 meeting are:

- To consider the Staff's technical review of extant ISA 810 aimed at identifying potential conflicts in extant ISA 810 that could make it inoperable in relation to the new and revised Auditor Reporting standards.<sup>4</sup>
- To decide on an appropriate way forward in light of this review.

## Introduction and Background

1. In contrast to ISA 800 and ISA 805, which are linked directly to ISA 700, extant ISA 810 is a stand-alone standard. It includes requirements that address the elements to be included in an auditor's report on summary financial statements. Though those reporting elements are similar to the elements that are required in an auditor's report on a complete set of general purpose financial statements (i.e., paragraphs 21–51 of ISA 700 (Revised)), those elements are characterized in the context of an engagement to report on summary financial statements.
2. At its September 2014 meeting, the IAASB initially considered developing consequential amendments to ISA 810 to take into account the enhancements resulting from the new and revised Auditor Reporting standards. However, the IAASB noted that the nature of an ISA 810 engagement was substantively different from an audit of financial statements, and was of the view that proposing amendments to ISA 810 without first understanding the nature and use of

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<sup>2</sup> Proposed ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

<sup>3</sup> Proposed ISA 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

<sup>4</sup> At its September 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*.

ISA 810 on a global basis would likely be ineffective.

3. At its December 2014 meeting, the IAASB considered preliminary feedback obtained from an informal survey of NSS and accounting firms about the use of extant ISA 810 and how the standard was adapted at the national level. While recognizing the potential public interest benefit of expanding the requirements in ISA 810 to require, at a minimum, reference to the auditor's report on the complete set of financial statements, the IAASB also noted that the objective of an ISA 810 engagement is for the auditor 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 those summary financial statements. As such, the IAASB was concerned that requiring the auditor to include additional information (e.g., Key Audit Matters (KAM), Going Concern (GC) and Other Information (OI)) in the auditor's report on summary financial statements may give the impression that the engagement is something other than what is intended, would potentially lengthen the auditor's report, and could be misleading if the underlying issues were not disclosed in a similar manner in the summary financial statements.
4. The preliminary feedback obtained indicates that ISA 810 is used as a starting point for jurisdictions in which auditors are engaged to report on summary financial statements. Those jurisdictions have further tailored ISA 810, and in some cases supplement it with national guidance to reflect the facts and circumstances that are relevant within the context of their national environments.
5. As such, and considering the IAASB's other priorities for the near term as set out in its Work Plan for 2015–2016, the IAASB decided not to propose changes to extant ISA 810 in the January 2015 Exposure Draft (ED), [\*Proposed ISA 800 \(Revised\), Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks and Proposed ISA 805 \(Revised\), Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement\*](#).<sup>5</sup> Instead, the IAASB asked that Staff undertake a detailed technical review of extant ISA 810 for the purpose of identifying conflicts, if any, which would make it inoperable in relation to the new and revised Auditor Reporting standards and report back in March 2015. The IAASB also 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.
6. Discussion at the September 2014 CAG meeting also highlighted that International Financial Reporting Standards (IFRSs) did not have provisions (or criteria) for preparing summarized financial statements. There was also a view expressed that summary financial statements should only be prepared at the request of a regulator who has established appropriate criteria and reporting requirements for such engagements.

## Results of Staff Review of ISA 810 – Issues and Recommendations

7. In conducting the technical review of ISA 810, Staff took into account the work and conclusions of the ISA 700 Drafting Team (DT-700) and the IAASB's deliberations from its September and

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<sup>5</sup> The information set out in paragraphs 1-5 of this paper was included in the ED, with a question for respondents to solicit feedback on whether conforming amendments to extant ISA 810 are needed at this time and, if so, what approach could be taken to incorporate the enhancements resulting from the new and revised Auditor Reporting standards. The comment deadline for the ED is April 22, 2015.

December 2014 meetings.<sup>6</sup>

### **Additional Information Included in the Auditor's Report on Audited Financial Statements**

8. Paragraph 5 of extant ISA 810 explains that an ISA 810 engagement can only be undertaken when the auditor has also been engaged to conduct an audit in accordance with ISAs of the financial statements from which the summary financial statements are derived. Within an auditor's report resulting from an engagement to report on summary financial statements (hereinafter referred to as an ISA 810 report), the auditor is required to include a statement that the summary financial statements do not contain all the disclosures required by the financial reporting framework applied in the preparation of audited financial statements, and that reading the summary financial statements is not a substitute for reading the audited financial statements.
9. Paragraphs 17–18 of extant ISA 810 include a requirement for the auditor to make reference in the ISA 810 report when the auditor's report on the audited financial statements:
  - Contains an Emphasis of Matter (EOM) paragraph or an Other Matter (OM) paragraph; or
  - Includes a modified opinion in relation to the audit of the financial statements.

The auditor is also required to describe the effect thereof on the summary financial statements (if any), though no illustrations of this are included in extant ISA 810.
10. There are two unique issues relating to ISA 810. Firstly, ISA 570 (Revised) and ISA 720 (Revised)<sup>7</sup> now require separate sections in the auditor's report on the audited financial statements when a material uncertainty (MU) related to GC<sup>8</sup> or a material misstatement(s) of OI exists. Such information was previously required to be addressed in EOM and OM paragraphs, respectively, and in accordance with paragraph 17 of extant ISA 810, would 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. Consequently, this presents an information gap for users of ISA 810 auditor's reports in such circumstances.
11. Secondly, there are now other elements required to be included in the auditor's report on the audited financial statements in accordance with ISA 700 (Revised). As ISA 810 is currently drafted, these would not be required to be included or referred to in the ISA 810 report, although nothing would preclude the auditor from doing so voluntarily. These include:
  - Any communication of KAM (which is required for listed entities);<sup>9</sup>

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<sup>6</sup> See Agenda Items 5A, *Consequential Amendments to the ISA 800 Series – Issues and Drafting Team Recommendations* and 5D, *Proposed ISA 810, Engagements to Report on Summary Financial Statements (Marked from Extant)* of the September 2014 IAASB Meeting materials available at: <http://www2.ifac.org/auditing-assurance/meetings/new-york-usa-7> for further discussion of DT-700 recommendations. Also relevant is Agenda Item 9-A, *ISA 810, Engagements to Report on Summary Financial Statements: Options for a Way Forward* of the December 2014 IAASB Meeting materials available at: <http://www2.ifac.org/auditing-assurance/meetings/new-york-usa-8>.

<sup>7</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

<sup>8</sup> In revising ISA 805, the IAASB had concluded that matters related to GC are deemed to always be relevant to the users' understanding of the financial statement or the specific element or the related auditor's report, and therefore is proposing to require the same disclosure in the ISA 805 auditor's report as what is included in the auditor's report on the audited financial statements.

<sup>9</sup> In revising ISA 805, the IAASB agreed not to require the ISA 805 auditor's report to include reference to KAM in the auditor's report on the audited financial statements. However, guidance in paragraph A23 of proposed ISA 805 (Revised) explains

- A new statement about independence and ethical requirements (which is required for all entities);
- The name of the engagement partner responsible for the audit (which is required for listed entities); and
- A description of responsibilities of those charged with governance.

ISA 700 (Revised) also requires the use of a new “Basis for Opinion” section as a means of more clearly presenting important context to the auditor’s opinion.

12. Feedback from the September 2014 CAG discussions indicated a view that it would be useful for the ISA 810 report to address the additional information that will now be required in the new auditor’s report. However, the CAG acknowledged that there may be practical challenges arising from doing so, in particular depending on the manner in which the summary financial statements are prepared and the disclosures required to be included therein in accordance with the applicable financial reporting framework. For example, there were concerns raised that the requirements of the applicable financial reporting framework to summarize financial statements may not require the inclusion of GC matters, and that requiring the auditor to include the same details about a MU relating to GC in an ISA 810 auditor’s report may not be appropriate or possible.

#### **Other Enhancements as a Result of ISA 700 (Revised)**

13. ISA 700 (Revised) requires the auditor’s opinion to be positioned as the first section<sup>10</sup> of the auditor’s report given the importance of such information to users. Extant ISA 810 does not prescribe specific ordering of the report, so auditors could elect to present the opinion first in the ISA 810 report. However, given the brevity of the ISA 810 reports, such placement may not be viewed as essential.
14. ISA 700 (Revised) also requires a more robust description of the auditor’s responsibilities for the audit of the financial statements. In contrast, extant ISA 810 only requires a statement that the auditor is responsible for expressing an opinion on the summary financial statements based on the procedures required by ISA 810, but the nature of those procedures are not described.

#### **Staff Recommendations**

15. DT-700 believed that, in light of the new information that will be included in the auditor’s report on the audited financial statements, it was important for the ISA 810 report to further emphasize the importance of reading the underlying audited financial statements and the auditor’s report thereon. While reference to reading the financial statements is currently made in the ISA 810 report, DT-700 proposed that the auditor could also be required to highlight the importance of reading the auditor’s report on the audited financial statements as part of that statement. The Board generally supported this notion as a useful step forward, as a practical means of drawing attention to the auditor’s report and the additional information to be contained therein as a result of the enhancements set out in ISA 700 (Revised).

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that the auditor may consider whether it is relevant to communicate in the ISA 805 auditor’s report that KAM are communicated in the auditor’s report on the complete set of financial statements. If the auditor considers it appropriate to do so, a reference to that communication may be included in an Other Matter paragraph in the ISA 805 auditor’s report.

<sup>10</sup> Unless law or regulation prescribe otherwise

16. DT-700 was also of the view that it was important to highlight when KAM, MU related to GC and material misstatement of OI was communicated in the audited financial statements in the ISA 810 auditor's report, and set out proposed changes to ISA 810 to require auditors to do so. While recognizing the benefits, the IAASB expressed mixed views about the merits of these proposed changes, with some members expressing concern about the extent of detail that should be included in the ISA 810 auditor's report given that the purpose of an ISA 810 engagement.<sup>11</sup> The potential benefits of transparency from disclosing the name of the engagement partner in the ISA 810 report were also acknowledged.
17. In Staff's view, the most pervasive issue to be addressed is the potential loss of information in circumstances when a MU related to GC is communicated in the auditor's report on the audited financial statements. Staff therefore recommends that, in the short term, the IAASB propose amendments to ISA 810 to address this discrepancy to ensure such information would remain required to be included in an ISA 810 report when applicable.<sup>12</sup> Requiring communication in all cases about material misstatements of OI in relation to the audited financial statements in the ISA 810 report (although currently addressed by ISA 810) may be less important – ISA 810 and ISA 720 (Revised) would require the auditor to consider any material misstatements of OI included with the summary financial statements, which is arguably more relevant to users of the ISA 810 report.
18. In light of the initial feedback about the use of ISA 810, and the fact that jurisdictions that typically use it further tailor the requirements based on law, regulation or national auditing standards, Staff recommends the following actions:
- Consultation with the CAG at its March 2015 meeting, in particular to understand from regulators whether ISA 810 reports are required more frequently than what has been initially suggested. After such an initial discussion, more detailed outreach could be undertaken as necessary (e.g., with the International Organization of Securities Commissions' (IOSCO) Auditing Subcommittee).
  - Consultation with the accounting firms and international audit networks by way of liaising with the Global Public Policy Committee (GPPC) to understand more fully whether accounting firms are routinely issuing ISA 810 reports and, if so, under what circumstances (e.g., in accordance with law or regulation or at the request of clients).
  - Consultation with the NSS Liaison Working Group at its May 2015 meeting to understand their plans, if any, to update their national equivalents of ISA 810 to take into account the enhancements to auditor reporting and any feedback from investors in relation to such engagements. It will be important in this discussion to highlight the issue related to GC and OI, as well as the possibility that explicit reference in the ISA 810 report to reading the auditor's report on the audited financial statements to understand how NSS may move forward.

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<sup>11</sup> The objective of an ISA 810 engagement 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, some IAASB members were of the view that 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.

<sup>12</sup> The intent would be for such changes to come into effect at the same time as the new and revised Auditor Reporting standards (i.e., for audits of financial statements ending on or after December 15, 2016).

- Consideration of any feedback received from the ISA 800 and ISA 805 ED.
19. Staff recommends that at the June 2015 meeting the Board consider a limited amendment to ISA 810 address the GC and OI issue. While the IAASB has previously proposed minor amendments to correct an anomaly within the standards without exposure, it would likely be preferable to expose these changes, as they are not unlike the changes proposed to the requirements in ISA 805. However, Staff is of the view that this could be done on an accelerated basis, as the change would be to align with current requirements rather than a fundamental reopening of the standard.
  20. If considered appropriate in light of feedback received to the ISA 800 and ISA 805 ED and other outreach aimed at understanding the use of ISA 810 in practice, the IAASB could also at that time give further consideration at the time of proposing a change to address GC as to whether other enhancements could be pursued, with the suggestion to require reference to the auditor's report being the preferred option in Staff's view to establish a minimum link to the auditor's report on the audited financial statements. Those tailoring the standard further would then have the option to provide further specificity in the form of requirements to make more detailed references to KAM, or require other elements (e.g., the statement about independence and other ethical requirements, name of the engagement partner, etc.)
  21. Staff is of the view that this approach best utilizes existing outreach channels and Board and staff resources in an effective manner. Should such dialogue result in support for a more robust consideration of ISA 810, the Board can consult on this as part of developing its Work Plan for 2017–2018. A separate consultation paper at this time is unlikely to result in different feedback of a practical nature, in light of what Staff believes is limited use of the standard on an international basis. The post-implementation review of the new and revised Auditor Reporting standards will also afford the Board 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. Should such dialogue result in support for a more robust consideration of ISA 810, the Board can consult on this as part of developing its Work Plan for 2017–2018.
  22. Staff sought input from the Steering Committee (SC) on its above recommendations. The SC unanimously supported the approach above, in particular the consultations outlined in paragraph 18 to further understand how ISA 810 is used in practice.

#### **Matters for IAASB Consideration**

1. The IAASB is asked for views on the Staff recommendations set out above, including:
  - (a) The view that changes to address the potential information gap relating to GC and OI are likely required in the form of a limited amendment to ISA 810.
  - (b) The possibility of exposing such changes on an accelerated basis.
  - (c) Whether there are any other stakeholders that should be consulted to inform the Board's decision of a way forward in relation to other possible changes.
2. The IAASB is asked to share any further comments on matters relevant to the technical review or way forward in relation to extant ISA 810.