

ISA 800/805—Issues and Drafting Team Recommendations

Summary of the IAASB's Discussions at its June 2015 Meeting

Auditor Reporting – ISA 800¹ and ISA 805²

Ms. Köhler provided a summary of responses received to the ISA 800 and ISA 805 exposure draft (ED). She highlighted the significant matters raised, and noted that some of the feedback raised issues that went beyond the intended scope of the ED.

The IAASB generally agreed with the Drafting Team's (DT or DT-700) recommended changes to proposed ISA 800 (Revised) and proposed ISA 805 (Revised) as set out in Agenda Items 4-B and 4-C, respectively, except as follows.

THE RELATIONSHIP OF THE ISA 805 AUDITOR'S REPORT TO THE AUDITOR'S REPORT ON THE COMPLETE SET OF FINANCIAL STATEMENTS

The IAASB was supportive of the requirement in paragraph 14 of proposed ISA 805 (Revised) Agenda Item 4-C requiring auditors to determine the effects of certain matters³ in the auditor's report on the complete set of financial statements on the single financial statement or on the element (the ISA 805 auditor's report) and report accordingly. The IAASB accepted that ISA 805 should explicitly specify that auditors should consider the implications for the audit to which ISA 805 applies. Accordingly, the IAASB asked that the DT:

- Expand the requirement in paragraph 14 of proposed ISA 805 (Revised) so that the term "determine the effects" would apply not only the ISA 805 auditor's report, but also to the ISA 805 engagement. Specifically, the IAASB suggested that the DT replace the terms "...determine the effects and report accordingly..." with "...consider the implications for the audit and the resulting auditor's report."
- Add key audit matters (KAM) to the list of matters in paragraph 14 of proposed ISA 805 (Revised) (Agenda Item 4-C) because, depending on its nature, the communication of a KAM in the auditor's report on the complete set of financial statements may have implications for the ISA 805 engagement and the ISA 805 auditor's report. The IAASB also suggested that the DT clarify the voluntary nature of the communication of KAM in an ISA 805 engagement.
- Enhance the application material to clarify the intended meaning of the term "determine the effect" as it relates to the audit to which ISA 805 applies, in particular when the matter is a KAM. For example, the IAASB suggested that the DT clarify the application material to further explain the

¹ ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

² ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

³ Those matters are: A modified opinion; an Emphasis of Matter (EOM) paragraph or an Other Matter (OM) paragraph; a *Material Uncertainty Related to Going Concern* section; communication of KAM in accordance with ISA 701, *Communication of Key Audit Matters in the Independent Auditor's Report*; or a statement that describes an uncorrected material misstatement of the other information (OI).

factors that may be relevant to the auditor's consideration of the implications for the audit to which ISA 805 applies and resulting auditor's reports.

- Further elaborate on the relationship with ISA 570 (Revised)⁴ if the going concern (GC) basis of accounting is not relevant in the context of the audit to which ISA 805 applies, but a *Material Uncertainty Relating to Going Concern* section exists in the auditor's report on the complete set of financial statements.

The IAASB did not support the DT's recommendation in paragraph 15 of Agenda Item 4-C which would require the auditor's report on the ISA 805 report to include a reference, in an OM paragraph, to the existence of certain matters in the auditor's report on the complete set of financial statements regardless of their relevancy. The IAASB was of the view that doing this would result in standardized language in all cases.

INCLUSION OF A REFERENCE TO THE AUDITOR'S REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS IN THE ISA 800 AUDITOR'S REPORT

Consistent with its decisions discussed above that a reference of this nature leads to standardized language and may not be relevant in all cases, the IAASB disagreed with the DT's proposed requirements and corresponding application material relating to the inclusion of a reference in the auditor's report on special purpose financial statements to the existence of certain matters in the auditor's report on general purpose financial statements.

OTHER MATTERS

The IAASB also provided minor points of clarification and editorial comments for the DT's further consideration on proposed ISA 800 (Revised) and proposed ISA 805 (Revised). The Board asked the DT to consider whether further changes are needed to the application material in proposed ISA 800 (Revised) and proposed ISA 805 (Revised) to:

- Clarify that ISA 260 (Revised)⁵ is relevant and is applicable to all audits to which ISA 800 and ISA 805 apply.
- Explain the concept of OI in the context of audits to which ISA 800 and ISA 805 apply.

IAASB CAG CHAIRMAN'S REMARKS

Mr. Waldron expressed support for the IAASB's decision to move away from requiring a reference in the ISA 805 auditor's report to certain matters in the auditor's report on a complete set of financial statements. In his view, the auditor's report on the complete set of financial statements would typically be readily available to users and therefore a simple reference is not necessary or useful.

WAY FORWARD

The DT will consider further refinements to proposed ISA 800 (Revised) and proposed ISA 805 (Revised) for the IAASB's approval at its September 2015 meeting.

⁴ ISA 570 (Revised), *Going Concern*

⁵ ISA 260 (Revised), *Communication with Those Charged with Governance*

Objectives of the IAASB Discussion

The objective of the IAASB discussion at its September 2015 meeting is to:

1. To consider the remaining issues and the DT recommendations, as well as a revised draft of proposed ISA 800 (Revised) and proposed ISA 805 (Revised).
2. To finalize and approve the two standards for submission to the Public Interest Oversight Board (PIOB).

Introduction

1. This paper summarizes DT-700's rationale for the significant changes made to the revised drafts of proposed ISA 800 (Revised) and proposed ISA 805 (Revised) based on the IAASB's June 2015 discussion. The revisions to proposed ISA 800 (Revised) and proposed ISA 805 (Revised) since the June 2015 IAASB meeting discussions are included in **Agenda Item 2-B** and **Agenda Item 2-C**, respectively and address:
 - (a) The relationship of the ISA 805 auditor's report and the auditor's report on the complete set of financial statements;
 - (b) Inclusion of a reference in the ISA 800 auditor's report to the auditor's report on general purpose financial statements;
 - (c) The applicability of ISA 570 (Revised);
 - (d) Other clarifications and revisions, including those relating to the applicability of ISA 260 (Revised) and ISA 720 (Revised);⁶ and
 - (e) Due process matters.

Respondents' feedback on the ED was considered at the June 2015 meeting. **Agenda Items 2-F and 2-G** illustrate the proposed changes since the ED; and **Agenda Items 2-D and 2-E** are clean versions of the standards.

Significant Issues and DT Recommendations

- I. **The Relationship of the ISA 805 Auditor's Report and the Auditor's Report on the Complete Set of Financial Statements**
2. In its original proposal set out in the June 2015 IAASB agenda materials, DT-700 proposed having two separate requirements to articulate its view of the auditor's two-step process to consider the matters⁷ in the auditor's report on the complete set of financial statements to:
 - Determine the effect that those matters have on the ISA 805 auditor's report in the context of the audit to which ISA 805 applies; and
 - Provide transparency to users of the ISA 805 auditor's report about matters that are included in the auditor's report in the complete set of financial statements.

⁶ ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

⁷ See footnote 1 above.

3. Based on feedback from the IAASB's June 2015 meeting, DT-700's has revisited these proposals and suggests further revisions to proposed ISA 805 (Revised). DT-700 is of the view that these revisions build on the overarching principles in extant ISA 805,⁸ but also provide further guidance to assist auditors in light of the new auditor reporting requirements, in particular those relating to GC, KAM and OI.
4. DT-700 has accepted the IAASB's view that auditor judgment is necessary to determine whether a reference should be included in the ISA 805 auditor's report to indicate the existence of matters in the auditor's report on the complete set of financial statements. Accordingly, the requirement relating to inclusion of a reference in all circumstances in proposed ISA 805 (Revised) has been dropped (previously paragraph 15 of **Agenda Item 2-C**).

Revised Requirements and Application Material

5. DT-700's recommendations are included in paragraphs 14 and A25–A29 of **Agenda Item 2-C**. These revisions incorporate the IAASB's input and include proposed changes to the requirement and application material to:
 - (a) Expand on the requirement for auditors to consider the implications of matters, including KAM, in the auditor's report on the complete set of financial statements on the audit to which ISA 805 applies (in addition to the implications on the ISA 805 auditor's report) (see paragraph 14 of **Agenda Item 2-C**).
 - (b) Better explain the factors that may be relevant to the auditor's consideration of the implications of the matters that are included in the auditor's report on the complete set of financial statements for the audit of the single financial statement, or the specific element of a financial statement, and the auditor's report thereon (see paragraphs A25–A26 of **Agenda Item 2-C**).
 - (c) Continue to explain the voluntary nature of the communication of KAM in the context of an audit to which ISA 805 applies (see paragraph A22 of **Agenda Item 2-C**).
 - (d) Highlight the potential implications of communicating KAM in the auditor's report on the complete set of general purpose financial statements, in particular the potential effect on the audit to which ISA 805 applies (see paragraph A27 of **Agenda Item 2-C**).
 - (e) Assist auditors who choose to include a reference in the ISA 805 auditor's report to highlight certain matters that are included in the auditor's report on the complete set of financial statements (see paragraphs A28–A29 of **Agenda Item 2-C**).

Matters for IAASB Consideration

1. The IAASB is asked to provide input on DT-700's suggested further revisions to the requirement in paragraph 14 and the corresponding application material in paragraphs A25–A30 of **Agenda Item 2-C**.

II. Inclusion of a Reference in the ISA 800 Auditor's Report to the Auditor's Report on the Complete Set of General Purpose Financial Statements

6. Responsive to the IAASB's feedback, DT-700 has agreed to drop the requirement in proposed ISA

⁸ See extant ISA 805, paragraphs 14 and A17.

800 (Revised) for the auditor to include in the ISA 800 auditor's report a reference to matters in the auditor's report on an entity's complete set of general purpose financial statements (previously paragraphs 16–17 in **Agenda Item 2-B**).

7. DT-700 observed that the auditor's report in illustration 3 of the Appendix in extant ISA 800 included a reference to the auditor's report on the complete set of general purpose financial statements. Consequently, DT-700 agreed that it would be helpful to have application material in proposed ISA 800 (Revised) that is consistent with its updated approach in proposed ISA 805 (Revised) to support this illustration. This new application material is intended to be responsive to the requests from some respondents to the ED for guidance to assist auditors who may choose to include a reference in the ISA 800 auditor's report to matters in the auditor's report on the complete set of general purpose financial statements (see A19–A20 of **Agenda Item 2-B**).

Matters for IAASB Consideration

2. The IAASB is asked to provide input on DT-700's suggested new application material relating to the inclusion of a reference in the ISA 800 auditor's report to the auditor's report on the complete set of general purpose financial statements (see paragraphs A19–A20 of **Agenda Item 2-B**).

III. The Applicability of ISA 570 (Revised)

The Auditor's Responsibilities in Accordance with ISA 570 (Revised)

8. DT-700 acknowledged that, in accordance with ISA 570 (Revised), the auditor's responsibilities are to:
 - (a) Obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the GC basis of accounting in the preparation of the financial statements, and
 - (b) To conclude, based on the audit evidence obtained, whether a material uncertainty (MU) exists about the entity's ability to continue as a GC.
9. Paragraph 2 of ISA 570 (Revised) specifically notes that special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the GC basis of accounting is relevant (e.g., the GC basis of accounting is not relevant for some financial statements prepared on a tax basis in particular jurisdictions. Paragraph A8 of ISA 570 (Revised) explains that management's assessment of the entity's ability to continue as a GC is a key part of the auditor's consideration of management's use of the GC basis of accounting. These concepts were acknowledged in extant ISA 570 and further clarified by the Board in its revisions to ISA 570 as part of the auditor reporting project.
10. DT-700 interpreted the language set out in ISA 570 (Revised) to mean that when the GC basis of accounting is not relevant to the preparation of the financial statements (including the special purpose financial statements, a single financial statement or a specific element of a financial statement), the auditor would not be expected to apply ISA 570 (Revised) and its requirements, including those related to concluding whether a MU about the entity's ability to continue as a GC exists.

Implications of the New and Revised Auditor Reporting Standards and the ISA 800 and ISA 805 ED

11. The enhanced auditor reporting responsibilities with respect to GC are dealt with in both ISA 570

(Revised) and ISA 700 (Revised).⁹ New application material was included in the ISA 800 and ISA 805 ED to explain:

- The applicability of ISA 570 (Revised) and the auditor's responsibilities with respect to management's use of the GC basis of accounting for audits to which ISA 800 and ISA 805 apply;¹⁰ and
- To impose a reporting responsibility for auditors to always include in the ISA 805 auditor's report a *Material Uncertainty Relating to Going Concern* section if such a section exists in the auditor's report on the complete set of financial statements.¹¹ This was because the IAASB believed at the time of ED's issuance, that this information would always be relevant to users' understanding of the audit to which ISA 805 applies.

12. Respondents to the ED expressed concern that requiring a reference to the auditor's report in all cases would not be appropriate. The IAASB accepted this view at its June 2015 meeting, and has moved away from this position. At its June 2015 meeting, one IAASB member also suggested that further elaboration is needed in proposed ISA 805 (Revised) in relation to the applicability of the requirements in ISA 570 (Revised)¹² if the GC basis of accounting is not relevant in the context of ISA 805 engagements, but a *Material Uncertainty Relating to Going Concern* section exists in the auditor's report on the complete set of financial statements.

⁹ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* and ISA 570 (Revised)

¹⁰ Paragraph A16 of proposed ISA 800 (Revised) noted that "ISA 570 (Revised) explains that there may be some special purpose financial statements prepared in accordance with a special purpose framework for which the going concern basis of accounting is not relevant (for example, the going concern basis of accounting may not be relevant for some financial statements prepared on a tax basis of accounting in particular jurisdictions). **When the going concern basis of accounting is not relevant, ISA 570 (Revised) is not applicable and the requirements in paragraphs 33(b) and 38(b)(iv) of ISA 700 (Revised) to describe in the auditor's report the respective responsibilities of management and the auditor relating to going concern do not apply.**" (See ISA 800 and ISA 805 ED, page 23).

Paragraph A17 of proposed ISA 805 (Revised) noted that "A single financial statement or a specific element of a financial statement may be prepared in accordance with a special purpose financial reporting framework for which the going concern basis of accounting is not relevant. **When the going concern basis of accounting is not relevant, ISA 570 (Revised) is not applicable and the requirements in paragraphs 33(b) and 38(b)(iv) of ISA 700 (Revised) to describe in the auditor's report the respective responsibilities of management and the auditor relating to going concern do not apply.**" (See ISA 800 and ISA 805 ED, page 44).

¹¹ Previous paragraph 15(b) of proposed ISA 805 required the auditor to include the Material Uncertainty Related to Going Concern section in the ISA 805 auditor's report, when such a section was included in the auditor's report on the complete set of financial statements. The ED also included guidance in paragraph A24 of proposed ISA 805 (Revised) that explained that "When the auditor's report on the entity's complete set of financial statements includes a "Material Uncertainty Related to Going Concern" section, paragraph 15 of this ISA requires that the auditor include this section in the auditor's report on the financial statement or on the specific element of those financial statements because matters related to going concern are deemed to always be relevant to the users' understanding of the financial statement or the specific element or the related auditor's report." (See ISA 800 and ISA 805 ED, page 45).

DT-700's Views Relating to Applicability of ISA 570 (Revised) When the GC Basis of Accounting Is Not Relevant

13. DT-700 considered the concerns described at paragraph 12 above and concluded that:
- (a) The applicability of ISA 570 (Revised) with respect to general purpose and special purpose financial statements is appropriately dealt with in ISA 570 (Revised). DT-700 also concluded that it would not be appropriate to infer additional responsibilities related to the auditor's work effort to address material uncertainties within proposed ISA 800 (Revised) and proposed ISA 805 (Revised) given how this topic has been articulated in ISA 570 (Revised).
 - (b) Revisions to the IAASB's proposal in its ED in regards to the inclusion of the descriptions of management's and the auditor's responsibilities with respect to GC are needed to better explain that the requirements in paragraphs 34(b) and 39(b)(iv) of ISA 700 (Revised),¹³ *may not* be applicable depending on whether ISA 570 (Revised) is determined to be applicable (see paragraph A16 of **Agenda Item 2-B** and paragraph A21 of **Agenda Item 2-C**).
 - (c) Even when the GC basis of accounting is not relevant, the auditor may nevertheless consider it appropriate to refer in the ISA 800 or ISA 805 auditor's report to a Material Uncertainty Related to Going Concern section in the auditor's report on the entity's complete set of financial statements. Further explanations of this point as well as specific examples are included the revised standards (see paragraph A16 and A20 of **Agenda Item 2-B** and paragraphs A19–A21 and A29 of **Agenda Item 2-C**).
14. In both standards, DT-700 has revised the application material to explicitly direct auditors to refer to ISA 570 (Revised) for guidance with respect to the applicability of ISA 570 (Revised). As discussed above, in proposed ISA 805 (Revised), new application material indicates that auditors may refer to a *Material Uncertainty Relating to Going Concern* section in the auditor's report on the complete set of financial statements, even when the GC basis of accounting is not relevant under the financial reporting framework that applies to the presentation of the single financial statement or a specific element of a financial statement. Similar application material has also been added in proposed ISA 800 (Revised). This new application material in proposed ISA 800 (Revised) serves a similar purpose as the originally proposed requirement to repeat this information. It signals to auditors that the discussion of MU about GC in the auditor's report on the complete set of financial statements may be relevant to users of ISA 800 and ISA 805 auditor's reports, even if MU are not relevant in an ISA 800 or ISA 805 engagement due to provisions of the applicable financial reporting framework.

Matters for IAASB Consideration

3. The IAASB is asked for its views on the revisions made to proposed ISA 800 (Revised) and proposed ISA 805 (Revised) to address the questions about the applicability of the requirements in ISA 570 (Revised) in audits to which ISA 800 and ISA 805 apply (see paragraphs A16 and A20 of **Agenda Item 2-B** and paragraphs 11, A19–A21 and A29 of **Agenda Item 2-C**).

¹³ Conforming changes resulting from the Disclosures and OI/ ISA 720 projects resulted in changes to the paragraph numbers in ISA 700 (Revised). Except for when reference is expressly made to ED, the updated paragraph numbers are included in this paper, and therefore are different from the January 2015 released version of ISA 700 (Revised).

IV. Other Clarifications and Revisions, Including Those Relating to the Applicability of ISA 260 (Revised) and ISA 720 (Revised)

ISA 260 (Revised)

15. DT-700 agreed to further align the application material in both standards that was intended to emphasize the applicability of ISA 260 (Revised) to existing application material in ISA 260 (Revised) (see paragraphs A12 of **Agenda Item 2-B** and A11 of **Agenda Item 2-C**).

ISA 720 (Revised)

16. Based on the IAASB's suggestion, DT-700 agreed to further align the wording in the proposed application material about OI in both standards to the language that is used in ISA 720 (Revised) (see paragraph A13 of **Agenda Item 2-B** and A23 of **Agenda Item 2-C**).

Applicability of ISA 800 in Audits to Which ISA 805 Applies

17. The International Association of Insurance Supervisors (IAIS), the sole Monitoring Group respondent to the ED, suggested that further guidance be included in the ISAs to better explain the interaction between ISA 800 and ISA 805. DT-700 affirmed that the requirements in ISA 700 (Revised) apply, adapted as necessary, to all audits to which ISA 805 applies. DT-700 also agreed that the requirements in proposed ISA 800 (Revised), adapted as necessary, also applies in an ISA 805 audit in cases when the complete set of financial statements was prepared in accordance with a special purpose framework. DT-700 observed that this point was addressed in the scope section of proposed ISA 805 (Revised).
18. Responsive to the suggestion made by IAIS, DT-700 has suggested clarifications to the reporting and forming an opinion requirement in paragraph 11 of proposed ISA 805 (Revised) (**Agenda Item 2-B**) to explain that proposed ISA 800 (Revised) applies, adapted as necessary, when the financial reporting framework that was used to prepare the financial statements is a special purpose framework.

Other Revisions

15. **Agenda Items 2-B and 2-C** also include editorial comments received from IAASB members, and other non-substantive changes since the June 2015 IAASB meeting. This includes the new and updated paragraphs and paragraph references to ISA 700 (Revised) to reflect the conforming changes resulting from the ISA 720 and Disclosures projects.

Matters for IAASB Consideration

4. The IAASB is asked to provide input on the other revisions to proposed ISA 800 (Revised) and proposed ISA 805 (Revised) in **Agenda Items 2-B** and **Agenda Items 2-C**.

V. Due Process Matters

Significant Matters Identified by the DT

16. **In DT-700's view, the significant matters it has identified as a result of its deliberations since the beginning of this project, and its considerations therein, have all been reflected in the issues papers presented to the IAASB at its meetings. In the DT-700's view, there are no significant matters it has discussed in this project that have not been brought to the IAASB's**

attention.

Consideration of the Need for Further Consultation

17. DT-700 does not believe that field testing of the proposals, or a roundtable, are warranted, given the nature of the changes and the input from stakeholders, and liaison with various stakeholders, including regulators and investors, over the course of the Auditor Reporting project as a whole.

Consideration of the Need for Re-Exposure

18. To facilitate the IAASB's consideration of the need for re-exposure, **Agenda Items 2-F and 2-G** shows the marked changes from the ED.
19. DT-700 does not believe that re-exposure is needed. This is because the changes are rather limited in nature (as shown in **Agenda Items 2-F and 2-G**); are in response to the comments received on exposure; and do not fundamentally change the principles of either ISAs from what was intended in the ED.

Effective Date

20. DT-700 continues to be of the view that the effective dates set out in the ED, and below remain appropriate, as this would be in line with the effective date of the new and revised Auditor Reporting standards:
- (a) Proposed ISA 800 (Revised) is for audits of special purpose financial statements for periods ending on or after December 15, 2016; and
 - (b) Proposed ISA 805 (Revised) is for audits of single financial statements or specific elements, accounts or items for periods ending on or after December 15, 2016. In the case of audits of single financial statements or specific elements, accounts or items of a financial statement prepared as at a specific date, proposed ISA 805 (Revised) is effective for audits of such information prepared as at a date on or after December 15, 2016.

Early adoption of the proposed standards would be permitted.

Matters for IAASB Consideration

5. Subject to the IAASB's views on approval of ISA 800 (Revised) and ISA 805 (Revised) as final standards, does the IAASB agree:
- (a) That re-exposure of the changes to proposed ISA 800 (Revised) and proposed ISA 805 (Revised) is not necessary?
 - (b) With the proposed effective dates?