



Kathleen Healy
Technical Director, IAASB

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www.ifac.org

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Ref.: AUD/PFK/NRO/HBU/SRO

Dear Ms Healy,

Re: FEE comments on IAASB Exposure Draft (ED): “ISA 800 (Revised), Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks and ISA 805 (Revised), Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement Proposed, Conforming Amendment to Another ISA”

FEE (the Federation of European Accountants, www.fee.be) is pleased to provide you with comments on the IAASB Exposure Draft (ED): “ISA 800 (Revised), Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks and ISA 805 (Revised), Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement Proposed, Conforming Amendment to Another ISA” (“the ED”) or (“ISA 800” and “ISA 805”).

This comment letter has been prepared by the FEE Audit and Assurance Policy Group that consists of practitioners and experts from our member bodies, with the assistance of some other FEE groups. No individual with memberships in both the FEE Audit and Assurance Policy Group and the IAASB has participated in the discussions, drafting and approval of this FEE comment letter to avoid any real or perceived conflict of interest.

Main Comments

We agree that the changes introduced by the recently completed auditor reporting project, and in particular changes in the auditor’s report concerning Key Audit Matters (KAM) and going concern, should be reflected in ISA 800 and 805.

In general, we support the proposals included in the ED, but highlight the risk that the interaction between matters included in the auditor’s report on the complete set of financial statements, and that under ISA 800 or 805, might not be clear particularly in relation to KAM. To safeguard against this, we recommend additional clarification in the application material or additional examples to emphasise the linkage. We refer to our response to Question 3.

In addition, there is an apparent mismatch in the respective responsibilities regarding going concern. As included in illustration 3 to ISA 805, the illustrative report only refers to the responsibilities of the auditor and no reference is made to those of management. Whilst the illustration refers to the applicability of ISA 570, the wording in the auditor's report may appear excessive in respect to the auditor's work in relation to a schedule of accounts receivable. We believe that a more balanced approach needs to be taken, and both the auditor's and management's responsibilities should be included as per illustration 1.

With regard to the inclusion of a revision to ISA 810 as part of this project, we believe that, primarily for consistency reasons, engagements in which this standard is being used, however rare, should be performed subject to the same enhancements resulting from the new and revised auditor reporting standards. We would therefore favour consequential amendments to extant ISA 810. Nevertheless, the IAASB may consider that for non-English speaking countries that are obliged to ensure translations of ISAs, the benefits of any changes to ISA 810 would have to outweigh the likely unnecessary costs.

For further information on this FEE¹ letter, please contact Noémi Robert on +32 2 285 40 80 or via e-mail at noemi.robert@fee.be from the FEE team.

Yours sincerely,



Petr Kriz
President



Olivier Boutellis-Taft
Chief Executive

¹ FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 47 professional institutes of accountants and auditors from 36 European countries, including all of the 28 European Union (EU) Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 800.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

Appendix: Request for specific comments

1. **Whether respondents agree with how the enhancements resulting from the new and revised Auditor Reporting standards have been addressed in proposed ISA 800 (Revised) and proposed ISA 805 (Revised) as explained in paragraphs 10–32 of this EM. If not, respondents are requested to provide their rationale as to why they do not support the proposals and, where applicable, suggest alternative approaches.**

We agree that the proposed changes to ISA 800 and ISA 805 generally reflect the principles of the revised Auditor Reporting standards. However, we would like to highlight some suggestions for improvement in our responses to the questions below.

2. **Whether the proposed standards include sufficient guidance to enable auditors to appropriately apply the new and revised Auditor Reporting standards in the context of ISA 800 and ISA 805 engagements.**

We agree that the guidance is appropriate, although we do see benefit in enhancing the guidance related to KAM (as discussed in question 3), and in clarifying paragraph 15 of ISA 805 as follows: paragraph 15 of ISA 805 covers two different aspects of auditor reporting, i.e. material uncertainty re going concern and uncorrected material misstatement of other information and where both or either of these has been reported in relation to an entity's complete set of financial statements. The IAASB might consider the benefits of separating these. Due to the pervasive nature of going concern, it would be appropriate to require any uncertainty in this regard to be repeated in every case, whereas the misstatement of other information could only be repeated where deemed appropriate and relevant.

3. **In relation to KAM:**

- (a) **Do respondents agree with the IAASB's decision that the communication of KAM be voluntary for all entities under both proposed ISA 800 (Revised) and proposed ISA 805 (Revised), unless required by law or regulation?**

We understand and agree with IAASB's sensible approach to communicate KAM under ISAs 800 and 805 only on a voluntary basis.

We acknowledge the fact that reports prepared under ISAs 800 and 805 are very specific and their use is often restricted for private purposes. The KAM paragraph, which was most demanded by investors, would not necessarily add significant value to these reports. However, we note that there is no reference to KAM within the main body of either standard.

- (b) **Specific to proposed ISA 805 (Revised), whether respondents support the IAASB's proposed direction that reference to KAM that is communicated in the auditor's report on the complete set of financial statements be permitted in the ISA 805 auditor's report using an OM paragraph and how this has been illustrated in the ISA (see paragraphs 25–32 above). In particular, the IAASB would also welcome respondents' views about:**
 - (i) **The usefulness of the guidance in paragraph A23 in proposed ISA 805 (Revised) and the appropriateness of Illustration 3 in Appendix 2 to assist auditors in determining how to make a reference in the ISA 805**

auditor's report to KAM that are communicated in the auditor's report on the complete set of financial statements; and

We agree that, to the extent the auditor considers it relevant, reference to the fact that KAM was communicated in the auditor's report on a complete set of financial statements or reproduction of such text should be sufficient for the users of the ISA 805 report. Nevertheless, we are not convinced that the guidance provided in paragraph A23, and particularly in Illustration 3 is sufficient. We agree that any reference to such prior communication of KAM should be situated within the "Other Matter" paragraph but are concerned that this could be confusing to users. Thus we would welcome a specific subheading in this section, such as "KAM in relation to the complete set of financial statements" to draw attention to the fact that reference is made to the KAM reported in the auditor's report on the full set of financial statements, and possibly also to explain the extent to which the auditor considers this relevant to the users' understanding of the single financial statement, element, account or items of a financial statements.

- (ii) In light of views on (i) and the Board's deliberations summarized in paragraphs 25–32 above, whether it is necessary to establish requirements in proposed ISA 805 (Revised) relating to a reference to KAM in the ISA 805 auditor's report either to promote consistent treatment in practice or expressly prohibit certain approaches (e.g., a reference only to relevant KAM in the auditor's report on the complete set of financial statements or the possibility of repeating the full description of a KAM).**

As stated above, it may or may not be relevant for the users of a special purpose auditor's report to include a reference or full reproduction of the KAM paragraph as disclosed in the general purpose auditor's report. We therefore agree with the proposed approach. However, the guidance and examples could be enhanced to make the different options more clear. For example, if several matters are described in a section on KAM in the auditor's report on the entity's complete set of financial statements, a reference to that fact alone will not necessarily help users of the ISA 805 auditor's report to understand the nature and degree of relevance to the subject matter, and they may well find this confusing. Further guidance, such as more example or different wording options of the "Other Matter" paragraph might be needed.

We believe this is the most appropriate approach as the materiality and focus of the audit work are often different when providing a special purpose auditor's report, compared to the materiality and focus applied in an audit of a complete set of financial statements. In turn this affects the auditor's approach to KAM. For instance, when undertaking an engagement under ISA 805 on the balance sheet only, it might not be appropriate to simply cross refer to a KAM included within the auditor's report on the same company's general purpose financial statements, as following ISA 701 for the audit of the balance sheet alone may well have led to different KAM reporting. It follows therefore that it would be inappropriate to require the auditor to always refer to any KAM stated in the general purpose auditor's report. Instead, the auditor should use judgement to consider the most appropriate approach in the given facts and circumstances, and if the auditor decides to include any mention of KAM, this should be clear and evident in the auditor's report.

In illustration 3, whilst the wording of the auditor's responsibilities section on going concern is appropriate in the context of the audit of a complete set of financial statements, it would be appropriate to amend this text in the context of an audit of a schedule of accounts receivable. As drafted, it provides a false impression regarding the respective responsibilities of the auditor and of management as the management's responsibilities' section does not refer to going concern at all.

4. **The IAASB would also welcome 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.**

According to the feedback received from practitioners in Europe, the use of ISA 810 is relatively rare, but, primarily for the benefit of consistency, we believe that enhancements resulting from the new and revised auditor reporting standards are important and should be reflected therein. We would therefore favour consequential amendments to extant ISA 810. Nevertheless, the IAASB may consider that for non-English speaking countries that are obliged to ensure translations of ISAs, the benefits of any changes to ISA 810 would have to outweigh the likely unnecessary costs.

In addition to the requests for specific comments above, the IAASB is also seeking comments on the general matters set out below:

- (a) ***Preparers (including Small- and Medium-Sized Entities (SMEs)), and Users (including Regulators)***—The IAASB invites comments on the proposed revised ISAs from preparers (particularly with respect to the practical impacts of the proposed revised ISAs), and users (particularly with respect to the reporting aspects of the proposed ISAs and whether the communicative value of the auditor’s reports in accordance with proposed ISA 800 (Revised) and proposed ISA 805 (Revised) would be enhanced).

FEE does not have anything to report on this specific matter.

- (b) ***Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposed revised ISAs, in particular, on any foreseeable difficulties in applying it in a developing nation environment.***

FEE does not have anything to report on this specific matter.

- (c) ***Translations—Recognizing that many respondents may intend to translate the final ISAs for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed revised ISAs.***

FEE have previously noted that the consequences of using words such as “may” or “could” can, when translated, lead to different interpretations and meanings. Accordingly, the use of consistent terminology throughout the standards is particularly important to avoid inconsistencies that can result in difficulties in the eventual translation of the text. The IAASB has generally used “may” in its standards, and thus consistency would be appropriate going forward.

- (d) ***Effective Date—In line with the effective date of the new and revised Auditor Reporting standards, the effective date of:***

- **Proposed ISA 800 (Revised) is for audits of special purpose financial statements for periods ending on or after December 15, 2016; and**

- **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.

FEE agrees that the effective date of these revised ISA 800 and ISA 805 should be aligned with the effective date of the new and revised ISAs included in the IAASB's Auditor reporting project.