Revision of ISA 800, “The Auditor’s Report on Special Purpose Audit 
Engagements” – First Issues Paper

Background

1. ISA 800, “The Auditor’s Report on Special Purpose Audit Engagements” was last revised in March 1994. The proposed revised ISA 700, “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” (ED-ISA 700) and proposed conforming amendments to ISA 200, “Objective and General Principles Governing an Audit of Financial Statements” (ED-ISA 200), which were approved in December 2003, not only gave rise to proposed conforming amendments to ISA 800 (ED-ISA 800), but also highlighted the need for a more comprehensive revision.

2. This paper contains the task force’s recommendations with regard to the scope of the revision of ISA 800. This paper deals with seven of the 13 issues identified by the task force. Appendix 3 to the paper contains background information (extracted from the project proposal) on the six issues not covered in this paper. The task force does not intend dealing with this information at the June 2004 IAASB meeting.

Task Force

3. The task force members are as follows: Sukanta Dutt (Chair), John Archambault, Josef Ferlings (supported by Wolfgang Böhmem), Jonas Hällström (INTOSAI) and John Kelly (South Africa). The task force met during the April 2004 IAASB meeting and again on May 6-7 in New York. It also had a telephone conference on May 24, 2004.

Proposed Project Timetable

4. Based on the IAASB’s agenda, and the project scope, the following project timetable is proposed:

- **June 2004**: Discussion of first issues paper
- **December 2004**: Discussion of second issues paper and review of proposed wording for recommendations agreed based on first issues paper
- **March 2005**: First read of proposed exposure draft
- **June 2005**: Approval of proposed exposure draft
- **December 2005**: Consideration of summary of significant comments
- **March 2006**: Full review of comments received and first read of proposed final standard
- **June 2006**: Approval of proposed final standard
5. The proposed revised ISA 800 is closely related to the proposed revised ISAs 700 and 701. The task force is concerned that a complete revision of ISA 800 shortly after significant conforming changes have been processed to extant ISA 800 (i.e. as a result of the proposed revised ISA 700) may be confusing to the users of ISAs. Furthermore, the revision of ISA 800 may require conforming changes to the proposed revised ISA 700.

**IAASB Action Requested**

The task force requests that the IAASB flag this matter for consideration once it has considered the ISA 700 Task Force’s recommended dispositions, the proposed final Standards and the effect that they may have on the proposed revised ISA 800.

**Proposed Project Scope**

6. The project proposal, which was approved in February 2004, set the following priorities for the project:

   (a) Reporting on a complete set of financial statements prepared in accordance with a financial reporting framework that is designed for a special purpose.
   (b) Reporting on a component of a complete set of general purpose or special purpose financial statements, such as a single financial statement, specified accounts, elements of accounts, or items in a financial statement.
   (c) The use of the term “true and fair” / “present fairly” in an auditor’s report on historical financial information other than a complete set of general purpose financial statements.

7. The project proposal also contained issues relating to another auditor’s report on the financial information of a component that is to be included in group financial statements. Members of the Steering Committee advised the Task Force Chair not to consider these issues in this phase of the project, as the project should focus on external reporting and any form of “scope creep” may delay the completion of the project.

8. The task force debated the proposed project scope. It agreed that it would not be possible to limit the project scope as proposed in the project proposal. The significantly narrower scope of the proposed revised ISA 700 (i.e. auditor’s report on a complete set of general purpose financial statements) makes it necessary to describe the scope of the proposed revised ISA 800 in a way that will cover most of the auditor’s reports that will no longer fall within the revised scope of ISA 700, and those that fall within the scope of extant ISA 800. This affects the project priorities originally set in the project proposal.

**Recommendation 1:**

The task force recommends that the scope of the proposed revised ISA 800 is as follows:

   (a) The auditor’s report on historical financial information other than that described in the proposed revised ISA 700. (In this paper referred to as “other historical financial information.”) This includes the auditor’s report on a single financial statement, items in a financial statements, specified accounts, or elements of accounts.
(b) The auditor’s report on summarized financial statements derived from a complete set of audited financial statements.

(c) The auditor’s report on financial information of a component (as defined in ISA 600) prepared for inclusion in group financial statements. It is acknowledged that this is a subset of (a). For purposes of this project the task force will address it separately; however, it may be presented as part of the standards and guidance for (a) in the proposed revised ISA 800.

With regard to project priorities, the task force recommends that (a) – (c) are covered in this phase of the project, and that the project only has one phase. The task force’s reasons are as follows:

**Reporting on Summarized Financial Statements**
- Reporting on summarized financial statements takes place frequently.
- The same standards and guidance often apply to (a) – (c) above. Not revising the existing standards and guidance for reporting on summarized financial statements may create inconsistencies in the proposed revised ISA 800.
- Summarized financial statements are derived from audited financial statements, and as a result fits comfortably within ISA 800. However, if not revised, the standards and guidance for reporting on summarized financial statements may have to be moved to a new Standard.

**Another Auditor’s Report on a Component’s Financial Information**
- The identified issues were originally addressed by the Group Audits Task Force; however, to ensure consistency in standards and guidance, the IAASB requested that they be considered as part of the revision of ISA 800. It may be too late to address these issues in the proposed revised ISA 600 or the related IAPS.
- Although reports between the group auditor and related auditors (as defined in the proposed revised ISA 600) are considered to be internal reports, reports between the group auditor and other auditors (as defined in the proposed revised ISA 600) are considered to be external reports.
- This form of reporting takes place frequently.

The use of the term “true and fair / present fairly” is also considered a priority and is included in Recommendation 2 below.

**IAASB Action Requested**
Does the IAASB agree with Recommendation 1?

9. The appendix to the project proposal recommended that the following identified issues were deferred to a subsequent phase when additional resources become available:

   (a) Whether the guidance in extant ISA 800 on summarized financial statements needs to be revised.
   (b) Whether to expand guidance on modifications to the auditor’s reports on special purpose financial statements/information.
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(c) Whether guidance in extant ISA 800 on limitation of distribution and use of the special purpose auditor’s report should be revised and strengthened.

(d) Whether to provide guidance regarding the adequacy of disclosures accompanying special purpose financial statements/information.

(e) Whether an auditor should audit an entity’s complete set of financial statements to be able to express an opinion on specified information that is based on the entity’s net income or equity.

(f) Determining how the auditor should address a change in the nature of the engagement, such as when the engagement is started as a special purpose engagement with limitation of use and distribution of the report but management subsequently decides to change the nature of the financial statements/information to audited general purpose financial statements.

(g) Determining how the auditor should address different levels of service on a given set of financial statements, for example, an audit of the balance sheet but a review of all other statements for the period ending on the date of the audited balance sheet.

(h) Whether a cash basis of accounting, such as that of IFAC’s Public Sector Committee, is a comprehensive basis of accounting as defined in ED-ISA 200.

10. At the February 2004 IAASB meeting it was noted that some of the above issues might not be separable from the priority areas identified in the project proposal.

**Recommendation 2:**

Because of the interrelationship of (a) – (c) in Recommendation 1 and the identified issues in paragraph 9 above, the task force recommends that the following issues are considered in this phase of the project:

- The use of the term “true and fair / present fairly”
- 9(a): Summarized financial statements – as discussed in Recommendation 1;
- 9(b): Modified auditor’s reports – but only when the ISA 701 project is close to final exposure draft stage;
- 9(c): Limitation on distribution and use of the auditor’s report;
- 9(d): The adequacy of disclosure in other historical financial information;
- 9(e): A requirement to audit the complete set of financial statements – but limiting it to a consideration of the completeness and continued appropriateness of related guidance in extant ISA 800, paragraph 13;\(^1\) and
- 9(f): A change in the nature of the engagement – but based on existing guidance in International Framework for Assurance Engagements, paragraph 19.\(^2\)

\(^1\) Extant ISA 800.13 reads as follows: “Many financial statement items are interrelated, for example, sales and receivables, and inventory and payables. Accordingly, when reporting on a component of financial statements, the auditor will sometimes be unable to consider the subject of the audit in isolation and will need to examine certain other financial information. In determining the scope of the engagement, the auditor should consider those financial statement items that are interrelated and which could materially affect the information on which the audit opinion is to be expressed.”

\(^2\) Paragraph 19 of the Assurance Framework reads as follows: “Having accepted an assurance engagement, a practitioner may not change that engagement to a non-assurance engagement, or from a reasonable assurance engagement to a limited assurance engagement without reasonable justification. A change in circumstances that affects the intended users’
It is recommended that 9(g) is not addressed in this project, as ISA 800 deals with the audit of other historical financial information, and reviews of historical financial information are dealt with in International Standards on Review Engagements. In accordance with these Standards, the auditor’s report should identify the audited/reviewed financial information and the level of assurance conveyed to the reader. Furthermore, the auditor’s report ordinarily accompanies the audited/reviewed financial information to which it relates.

It is believed that 9(h) has been considered by the ISA 700 Task Force.

**IAASB Action Requested**

Does the IAASB agree with Recommendation 2?

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**Issues to be Addressed as Part of this Project**

11. With reference to the project proposal, and based on the proposed project scope and priorities, the task force has identified the following issues to be addressed as part of the proposed revision of ISA 800:

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<td>Dating of the auditor’s report</td>
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<td>Limitation of use and distribution of the auditor’s report and standard disclaimers</td>
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<tr>
<td>The auditor’s report on summarized financial statements</td>
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<td>• Nature of the engagement and use of the term “consistent”</td>
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<td>• Equivalency of different wordings of the opinion on summarized financial statements</td>
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<td>✓</td>
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<td>• Nature, timing and extent of procedures</td>
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requirements, or a misunderstanding concerning the nature of the engagement, ordinarily will justify the request for a change in the engagement. If such a change is made, the practitioner does not disregard evidence that was obtained prior to the change.”
12. Appendix 3 contains background information to the issues to be addressed in the second issues paper.

**Issues for Consideration**

**SCOPE, INTRODUCTION AND TITLE OF PROPOSED REVISED ISA 800**

13. Differences in the scope of the application of the standards and guidance for reporting on other historical financial information have been noted in the ED-ISA 200, ED-ISA 800 and national standards. In some instances, the term “other comprehensive basis of accounting” is defined and examples of engagements to report on financial statements prepared in accordance with other comprehensive bases of accounting are provided, while in other instances the application of the standards and guidance is limited to specified engagements. The table in Appendix 1 provides a comparison of the scope of the application of the standards and guidance in ED-ISA 200, ED-ISA 800, AU Section 623, CICA Section 5600, “Auditor’s Report on Financial Statements Prepared Using a Basis of Accounting Other than Generally Accepted Accounting Principles,” and AUS 802, “The Audit Report on Financial Information Other than a General Purpose Financial Report.”

14. As explained in paragraph 8 above, it is important that the link between ED-ISA 700 and the proposed revised ISA 800, and the scope of the proposed revised ISA 800 are clearly reflected in the introduction to the proposed revised ISA 800. In addition, consideration should be given to the continued appropriateness of the title of extant ISA 800.

**Recommendation 3:**

- Limiting the application of the standards and guidance to specified engagements could imply a rules-based approach. As a result, the task force recommends that the standards and guidance address issues common to auditor’s report on other historical financial information, and that it provides examples of such engagements, i.e. in line with those in ED-ISA 200 and ED-ISA 800.

- The task force recommends that the introduction to extant ISA 800 is revised to read as follows: “The purpose of this ISA is to establish basic principles and essential procedures and to provide guidance on the form and content of the independent auditor’s report issued in connection with the audit of historical financial information other than that described in ISA 700, “The
In addition, the task force recommends the following revised title: “The Independent Auditor’s Report on Other Historical Financial Information.”

**IAASB Action Requested**
Does the IAASB agree with Recommendation 3?

**TERMINOLOGY**

15. According to ED-ISA 200, paragraph 39, financial statements prepared in accordance with financial reporting frameworks that are designed to meet the common information needs of a wide range of users are referred to as “general purpose financial statements.” Paragraph 38 recognizes the fact that in some cases the objective of the financial statements will be to meet the financial information needs of specific users, and that the information needs of such users will determine the applicable financial reporting framework in these circumstances.

16. ED-ISA 800, paragraphs 1 and 9, implicitly defines an “other comprehensive basis of accounting” as a set of criteria used in preparing financial statements that (a) applies to all material items, (b) has substantial support, and (c) is designed for a special purpose.

17. The ED-ISAs do not provide an explicit link between the terms “financial reporting framework” and “comprehensive basis of accounting” / “other comprehensive basis of accounting.” The task force is of the opinion that both a comprehensive basis of accounting and an other comprehensive basis of accounting are financial reporting frameworks. Furthermore, the proposed revised ISA 800 will cover auditor’s report on other historical financial information prepared in accordance with a comprehensive basis of accounting and other historical financial information prepared in accordance with an other comprehensive basis of accounting (see Recommendation 1). As a result, the proposed revised ISA 800 could be simplified by using the term “financial reporting framework,” and by not distinguishing between a comprehensive basis of accounting and an other comprehensive basis of accounting.

18. ED-ISA 800 defines a “comprehensive basis of accounting” as a set of criteria that inter alia has substantial support (see paragraph 16 above). This wording is also contained in AU Section 623, “Special Reports.” Financial reporting frameworks for other historical financial information may not always have substantial support. For example, an auditor may be requested to report on other historical financial information prepared in accordance with the requirements of a contract. Furthermore, the idea of substantial support implies that there are many users, and that it is likely that the purpose of the resulting financial information is to satisfy the common needs of a wide range of users.

**Recommendation 4:**
The task force recommends that the proposed revised ISA 800 is simplified by using the term “financial reporting framework,” and that the term is defined as “a set of criteria that is applied in preparing and presenting financial information.” In addition, the Task Force recommends that a
Acceptability of the Financial Reporting Framework

19. According to ED-ISA 200, paragraph 36, an applicable financial reporting framework is a framework identified by management that is acceptable in view of the nature of the entity (for example, whether it is a business enterprise or a not-for-profit organization) and the objective of the financial statements. Paragraph 38 states that, when the objective of the financial statements is to meet the financial information needs of specific users, the information needs of such users will determine the applicable financial reporting framework in these circumstances.

20. ED-ISA 200, paragraph 37, requires the auditor to determine whether the financial reporting framework identified by management is indeed acceptable. Paragraphs 41 and 44, provide guidance on acceptable financial reporting frameworks. According to paragraph 44, the auditor considers the acceptability of the financial reporting framework by considering whether it is clearly described in the financial statements and whether it exhibits the following characteristics of suitable criteria:

(a) Relevant to the nature of the entity and the objective of the financial statements. (For example, in the case of a business enterprise that prepares general purpose financial statements, relevance is assessed in terms of the information necessary to meet the common information needs of a wide range of users in making economic decisions. These needs are ordinarily met by presenting fairly the financial position, financial performance and cash flows of the business enterprise.)

(b) Complete in that transactions and events, account balances and disclosures that could affect the fair presentation of the financial statements are not omitted.

(c) Reliable in that it:

3 Suitable criteria exhibit the following characteristics:

(a) Relevance: relevant criteria contribute to conclusions that assist decision-making by the intended users.

(b) Completeness: criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the engagement circumstances are not omitted. Complete criteria include, where relevant, benchmarks for presentation and disclosure.

(c) Reliability: reliable criteria allow reasonably consistent evaluation or measurement of the subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by similarly qualified practitioners.

(d) Neutrality: neutral criteria contribute to conclusions that are free from bias.

(e) Understandability: understandable criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.
(i) Reflects the economic substance of events and transactions and not merely their legal
form; and
(ii) Results in reasonably consistent evaluation, measurement, presentation and
disclosure, when used in similar circumstances.
(e) Neutral in that it is free from bias.
(f) Understandable in that it is clear and comprehensive and not subject to significantly
different interpretation.

Although based on the characteristics of suitable criteria described in the International
Framework for Assurance Engagements, paragraph 36, the characteristics have been tailored to
apply to a complete set of general purpose financial statements, and may not be applicable to
other historical financial information.

21. In accordance with CICA Section 5600, paragraph .08, the auditor assesses whether the basis of
accounting used in the financial statements is suitable for the engagement. Reference is made to
the guidance on suitable criteria for assurance engagements provided in Standards for Assurance
Engagements, Section 5025.

22. According to AUS 802, paragraphs 19 and 20, the auditor’s responsibility is to form an opinion
regarding presentation in accordance with an identified financial reporting framework, rather than
whether the framework adopted is appropriate to the needs of users. However, when the
framework adopted is clearly likely to mislead users of the financial report, the auditor is required
to:

(a) Consider the steps taken by the preparers of the financial report to determine that the
financial reporting framework is appropriate to the needs of the users;
(b) Consider whether the users identified are the only likely users and the possibility that the
financial report will be purported to be a general purpose financial report; and
(c) Give particular attention to the disclosure of the framework, including consideration
whether the use of any conventional terminology within the financial report needs to be
modified or embellished.

It also notes that, in such cases, the auditor would seek to resolve any problems which arise and
may consider it appropriate to seek legal advice. The auditor would also consider any relevant
legal duties arising under legislation or otherwise.

**Recommendation 5:**
The task force recommends that:

- In line with ED-ISA 200, paragraph 37, the auditor of other historical financial information
  should determine whether the financial reporting framework applied in preparing and presenting
  the other historical financial information is acceptable.
- It is presumed that financial reporting frameworks established by international/national standards
  setting organizations are acceptable financial reporting frameworks.

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4 See footnote 3.
• It is presumed that a set of financial reporting provisions that a government regulatory agency has established for financial statements to meet the information needs of that agency is an acceptable financial reporting framework.

• For financial reporting frameworks that are not established by standards setting organizations or government regulatory agencies, the auditor should determine whether the financial reporting framework exhibits the characteristics of suitable criteria as described in the International Framework for Assurance Engagements, paragraph 36. In line with the Framework, paragraph 35, it should be explained that suitable criteria are context-sensitive, i.e. relevant to the engagement circumstances and, even for the same subject matter, there can be different criteria.

• The objective and, in the case of other historical financial information prepared for a special purpose, the users of the financial information should be described in the auditor’s report to minimize the risk of misuse and misunderstanding.

In addition, the task force recommends that the auditor is required to:

• Consider the steps taken by the preparers of the other historical financial information to determine that the financial reporting framework is appropriate to the needs of the users;

• In the case of other historical financial information prepared for a special purpose, consider whether the users identified are the only likely users and the possibility that the other historical financial information will be purported to be of a general purpose; and

• Give particular attention to the disclosure of the financial reporting framework, including consideration whether the use of any conventional terminology within the other historical financial information needs to be modified or embellished.

**IAASB Action Requested**

Does the IAASB agree with Recommendation 5?

**USE OF THE TERM “TRUE AND FAIR / PRESENT FAIRLY”**

*International Standards on Auditing*

23. According to the project proposal, the concept of true and fair/present fairly is closely associated with a complete set of general purpose financial statements. The project proposal states that it could be argued that the expression of a true and fair/present fairly opinion should not be related to an accounting basis that is not an applicable general purpose financial reporting framework because the basis of accounting may not result in virtually all circumstances in financial statements that achieve fair presentation. This was based on related standards and guidance in International Financial Reporting Standards (IFRSs). Appendix 2 contains extracts from the relevant IFRSs.

24. Within the framework established by ISA 120, “Framework of International Standards on Auditing,” the responsibility of the auditor to express a true and fair/present fairly opinion extends to both the audit of general purpose financial statements and the audit of financial or other information. This is specifically provided for in ISA 120, paragraph 11, which is repeated in

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5 See footnote 3.
the explanation of the objective of an audit in the Glossary of Terms.\footnote{According to the Glossary of Terms, “The \textit{objective} of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework. The phrases used to express the auditor’s opinion are ‘give a true and fair view’ or ‘present fairly, in all material respects,’ which are equivalent terms. A similar objective applies to the audit of financial or other information prepared in accordance with appropriate criteria.”}

25. In accordance with ED-ISA 700, paragraph 7, the auditor’s judgment regarding whether the financial statements give a true and fair view/present fairly is made in the context of the applicable financial reporting framework. The terms used to express the auditor’s opinion on an audit of a complete set of general purpose financial statements are “give a true and fair view” or “present fairly, in all material respects,” and are equivalent (ED-ISA 700, paragraph 6).

26. Extant ISA 800, paragraph 10, requires an auditor’s report on financial statements prepared in accordance with another comprehensive basis of accounting to include a statement that indicates the basis of accounting used, or a reference to the note to the financial statements giving that information. It also requires the opinion to state whether the financial statements are prepared, in all material respects, in accordance with the identified basis of accounting. The terms used to express the auditor’s opinion are “give a true and fair view” or “present fairly, in all material respects.”

27. The term true and fair/present fairly is not used in the body of extant ISA 800 in relation to an auditor’s report on a component of a complete set of financial statements; however, it is used in the examples in the Appendix. (Extant ISA 800, paragraph 16, requires that the auditor’s report include a statement that indicates the basis of accounting or refers to an agreement that specifies the basis. The opinion should state whether the component is prepared, in all material respects, in accordance with the identified basis of accounting.)

28. Extant ISA 800, paragraph 24, states that summarized financial statements do not contain all the information required by the financial reporting framework used for the annual audited financial statements. Consequently, wording such as “true and fair” or “present fairly, in all material respects” is not used by the auditor when expressing an opinion on summarized financial statements.

29. Extant ISA 800 does not deal with the auditor’s report on the financial information of a component prepared for inclusion in group financial statements. A component’s financial information (i.e. a consolidation package), although prepared in accordance with an applicable general purpose financial reporting framework, may not contain all the disclosures or be presented in the form required by such financial reporting framework.

\textit{National Auditing Standards}\footnote{2}

30. According to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles,” paragraph .03, an auditor’s judgment concerning the “fairness” of the overall presentation of financial statements should be applied within the framework of generally accepted accounting principles. Without that framework, the auditor would have no
uniform standard for judging the presentation of financial position, results of operations, and cash flows in financial statements.

31. AU Section 411, paragraph .04, states that the auditor’s opinion that financial statements present fairly an entity’s financial position, results of operations, and cash flows in conformity with generally accepted accounting principles should be based on his or her judgment as to whether (a) the accounting principles selected and applied have general acceptance, (b) the accounting principles are appropriate in the circumstances, (c) the financial statements, including the related notes, are informative of matters that may affect their use, understanding and interpretation, (d) the information presented in the financial statements is classified and summarized in a reasonable manner, i.e. neither too detailed nor too condensed, and (e) the financial statements reflect the underlying transactions and events in a manner that presents the financial position, results of operations, and cash flows stated within a range of acceptable limits, i.e. limits that are reasonable and practicable to attain in financial statements.

32. AU Section 623, paragraph .03, states that an auditor’s judgment concerning the overall presentation of financial statements should be applied within an identifiable (applicable?) framework. Normally, the framework is provided by generally accepted accounting principles, and the auditor’s judgment in forming an opinion is applied accordingly. In some circumstances, however, a comprehensive basis of accounting other than generally accepted accounting principles may be used.

33. AU Section 623, CICA Section 5600 and AUS 802 provide for the expression of a true and fair/present fairly opinion on financial statements prepared in accordance with a special purpose financial reporting framework.

Possible Alternatives

34. The task force discussed the use of the term true and fair/present fairly in the auditor’s reports on other historical financial information. The task force agreed that:

(a) The term true and fair/present fairly is ordinarily explained in the financial reporting framework (i.e. it is a financial reporting matter), and

(b) As a general principle, the auditor should not have a greater responsibility than the responsibility of those responsible for preparing the other historical financial information.
35. The following possible alternatives were identified:

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<th>Application of Alternatives to Audits of Different Types of Other Historical Financial Information</th>
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<tr>
<td><strong>Complete Set</strong></td>
<td><strong>Single Financial Statement</strong></td>
<td><strong>Item in Financial Statement</strong></td>
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| **Alternative 1:** Require use of term true and fair / present fairly, or term with equivalent meaning, and include “step back responsibility” for auditor (i.e. irrespective of engagement circumstances)<sup>9</sup> | Auditor acting in the public interest
Auditor’s responsibility may exceed the responsibility of those preparing the other historical financial information | Yes | Yes – if FRF does not prohibit preparation of single financial statement and reference to true and fair / present fairly in relation to that financial statement | Depends whether contract specifies wording of auditor’s opinion | Yes – if suitable criteria does not prohibit reference to true and fair / present fairly |
| **Alternative 2:** Term true and fair / present fairly only to be used when used in FRF or national law.<sup>10</sup> If not used, then “presented, in all material respects,” in accordance with FRF” or “complies”<sup>12</sup> with FRF | Flexible – works in all jurisdictions
Aligns auditor’s responsibility with the responsibility of those responsible for preparing the other historical financial information
Does have code – i.e. describing | Yes | Yes – if FRF does not prohibit preparation of single financial statement and reference to true and fair / present fairly in relation to that financial statement | Yes | Yes |

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<sup>7</sup> Normally defined in financial reporting framework applicable to complete set of financial statements.

<sup>8</sup> See footnote 7.

<sup>9</sup> Engagement circumstances in this context refers to the financial reporting framework applied in the preparation of the other historical information and the auditor’s reporting responsibilities in terms of national law applicable to the engagement. I.e. whether the financial reporting framework permits the use of the term true and fair/present fairly and provides for an override, or whether national law requires the auditor’s opinion to contain the term true and fair/present fairly.

<sup>10</sup> I.e. the auditor’s reporting responsibilities stated in national law.

<sup>11</sup> The term “in all material respects” may be redundant where the financial reporting framework deals with materiality. Consideration should be given as to whether its use should be restricted to circumstances where the FRF (e.g. contractual requirements) does not deal with materiality.

<sup>12</sup> The term “complies” does not imply use of materiality.
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<td>financial reporting override</td>
<td><strong>Complete Set</strong></td>
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<td></td>
<td>Can result in auditor association with misleading information</td>
<td>Will not work where engagement circumstances require use of term true and fair / present fairly</td>
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**Alternative 3:** Prohibit the use of the term true and fair / present fairly and do not include “step back responsibility” for auditor (see Alternative 2 for proposed wording)

**Recommendation 6:**
The task force recommends that Alternative 2 is adopted, as it clearly links the auditor’s opinion to the financial reporting framework.

**IAASB Action Requested**
The IAASB is requested to discuss Alternatives 1 to 3 above and to advise the task force on the way forward.

36. A new section in the proposed revised ISA 700 deals with matters the auditor needs to consider when reflecting, at the end of the audit process, on the fair presentation of the financial statements as a whole. The guidance recognizes the rare circumstances when specific requirements in the financial reporting framework may result in misleading information or additional disclosures are required.

37. Consideration should be given as to whether a similar “step back responsibility” should be included in the proposed revised ISA 800.

**Recommendation 7:**
Based on the general principle that the auditor’s responsibilities should not exceed the responsibilities of those responsible for preparing the other historical financial information, the task force recommends that, unless the financial reporting framework provides for an override, the auditor should not have a “step back responsibility.” (The task force acknowledges that this may become irrelevant if the proposed revised IFAC Code of Ethics for Professional Accountants provides for an “auditor override,” and may also be affected by the outcome of the discussion of Recommendation 6.)

IAASB Action Requested
Does the IAASB agree with Recommendation 7?

Adequacy of Disclosures in Special Purpose Financial Statements/Information
38. The project proposal recommends that consideration is given to the following:

- Whether to provide guidance for the auditor to ensure that other financial statements include in the notes to the financial information a summary of significant accounting policies that discusses the basis of preparation and presentation.

- Whether to provide guidance for the auditor to consider the adequacy of disclosures accompanying other financial information. Guidance could be provided in terms of criteria, for example, where measurement and presentation of a given element of the financial information are provided for in the applicable financial reporting framework used by the entity to prepare its general purpose financial statements, disclosures required by that framework should be followed.

Recommendation 8:
In line with ISAE 3000, “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information,” paragraph 49(d), the task force recommends that the auditor’s report should identify the financial reporting framework so the users can understand the basis for the auditor’s conclusion. The auditor’s report may include the financial reporting framework, or refer to it if it is contained in an assertion prepared by those responsible for preparing the other historical financial information that is available to the users or if it is otherwise available from a readily accessible source.

In addition, the task force recommends that guidance for the auditor to consider the adequacy of disclosures should be developed. Recognizing the wide variety of financial reporting frameworks that may be applied in preparing other historical financial information, the guidance should be of general nature, i.e. based on the auditor’s professional judgment, he/she considers whether the other

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13 Paragraph 2.2 of the proposed revised IFAC Code of Ethics for Professional Accountants reads as follows: Professional accountant should not be associated with reports, returns, communications or other information where they believe that the information (a) contains a materially false or misleading statement; (b) contains statements or information furnished recklessly; or (c) omits or obscures information required to be included where such omission or obscurity would be misleading.
historical financial information includes disclosures appropriate to the needs of the users (e.g. whether, in the case of other historical financial information prepared in accordance with contractual requirements, significant interpretations have been disclosed).

**IAASB Action Requested**

Does the IAASB agree with Recommendation 8?

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**PUBLIC SECTOR CONSIDERATIONS**

39. Extant ISA 800 contains the following Public Sector Perspective: “Some of the engagements considered ‘special purpose audit engagements’ in the private sector are not special purpose in the public sector. For example, reports on financial statements prepared in accordance with a comprehensive basis of accounting other than IFRS or national standards are ordinarily the norm, not the exception in the public sector. This has to be noted and guidance provided to the auditor on his or her responsibility to assess whether the accounting policies will result in misleading information.”

40. The above Public Sector Perspective seems to be incomplete as it notes that guidance should be provided to the auditor on his responsibility to assess whether the accounting will result in misleading information.

**Recommendation 9:**

Based on the input of the INTOSAI representative on the task force, the task force recommends that the following public sector considerations are reflected in the proposed revised ISA 800:

- The fact that auditor’s reports in the public sector often are on public record and the effect that this may have on the standards and guidance on restriction and use of the auditor’s reports.
- The fact that auditors of public sector entities often have a “step back responsibility,” and the effect that this may have on the audit procedures and the audit opinion.

**IAASB Action Requested**

Does the IAASB agree with Recommendation 9?

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**SMALL ENTITY/PRACTITIONER CONSIDERATIONS**

41. IAPS 1005, “The Special Considerations in the Audit of Small Entities” does not contain any guidance with regard to the application of extant ISA 800. Consideration should be given as whether any small entity/practitioner considerations should be included in the proposed revised ISA 800.

**Recommendation 10:**

Although the SMP Task Force has not identified this project as a priority, the task force recommends that it is made aware of the issues to be addressed in this project.
IAASB Action Requested

Does the IAASB agree with Recommendation 10?

<table>
<thead>
<tr>
<th>ED-ISA 200</th>
<th>ED-ISA 800</th>
<th>AU Section 623</th>
<th>CICA Section 5600</th>
<th>AUS 802</th>
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<tr>
<td>Implicit definition of an “other comprehensive basis of accounting:” A set of criteria used in preparing financial statements or financial information that (a) applies to all material items, (b) has substantial support, and (c) is designed for a special purpose.</td>
<td>Application of the Standard is limited to one of the following:</td>
<td>Application of the Standard is limited to one of the following:</td>
<td>A financial report may be prepared for a purpose in accordance with a financial reporting framework other than Accounting Standards and other mandatory professional reporting requirements in Australia (a special purpose financial report).</td>
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<td><strong>Examples of financial reporting frameworks that address the needs of specific users:</strong></td>
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<td><strong>A tax basis of accounting for a set of financial statements that accompany an entity’s tax return.</strong></td>
<td>The tax basis of accounting for a set of financial statements that accompany an entity’s tax return.</td>
<td>A basis of accounting that the reporting entity uses or expects to use to file its income tax return for the period covered by the financial statements.</td>
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<td>The cash receipts and disbursements basis of accounting for cash flow information that a business enterprise may be requested to prepare by creditors.</td>
<td>The cash receipts and disbursements basis of accounting, and modifications of the cash basis having substantial support, such as recording depreciation on fixed assets or accruing income taxes.</td>
<td>The cash receipts and disbursements basis of accounting.</td>
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<td>The financial reporting provisions of a government regulatory agency for a set of financial</td>
<td>The financial reporting provisions of a government regulatory agency for a set of financial</td>
<td>A basis of accounting that the reporting entity uses to comply with the requirements or</td>
<td>Regulatory or legislative requirements to meet the specific needs of a regulator or a governmental</td>
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Examples of other financial reporting frameworks are:
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<tr>
<th>ED-ISA 200</th>
<th>ED-ISA 800</th>
<th>AU Section 623</th>
<th>CICA Section 5600</th>
<th>AUS 802</th>
</tr>
</thead>
<tbody>
<tr>
<td>statement to meet the information needs of that agency.</td>
<td>statements prepared for regulatory purposes.</td>
<td>financial reporting provisions of a governmental regulatory agency to whose jurisdiction the entity is subject. An example is a basis of accounting insurance companies use pursuant to the rules of a state insurance commission.</td>
<td>legislator.</td>
<td>regulatory agency.</td>
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<tr>
<td>A financial reporting framework established by the provisions of an agreement specifying the financial statements to be prepared.</td>
<td></td>
<td>Written contractual requirements such as may be set out in trust indentures or buy/sell agreements.</td>
<td>That required of subsidiaries for reporting to the parent entity.</td>
<td>That required by a grantor organization to be used by recipients of its grants.</td>
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<td>A definite set of criteria having substantial support that is applied to all material items appearing in financial statements, such as the price-level basis of accounting.</td>
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Appendix 2

References to Fair Presentation in International Accounting Standards

1. The International Accounting Standard Board’s Framework for the Preparation and Presentation of Financial Statements contains the following relevant guidance:

   20. The component parts of the financial statements interrelate because they reflect different aspects of the same transactions or other events. Although each statement provides information that is different from the others, none is likely to serve only a single purpose or provide all the information necessary for particular needs of users. For example, an income statement provides an incomplete picture of performance unless it is used in conjunction with the balance sheet and the statement of changes in financial position.

   46. Financial statements are frequently described as showing a true and fair view of, or as presenting fairly, the financial position, performance and changes in financial position of an enterprise. Although this Framework does not deal directly with such concepts, the application of the principal qualitative characteristics and of appropriate accounting standards normally results in financial statements that convey what is generally understood as a true and fair view of, or as presenting fairly such information.

2. International Accounting Standard 1, Presentation of Financial Statements, which applies to all general purpose financial statements prepared and presented in accordance with IFRSs, contains the following relevant standards and guidance:

   13. Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

   15. In virtually all circumstances, a fair presentation is achieved by compliance with applicable IFRSs. A fair presentation also requires an entity:

   (a) To select and apply accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. IAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of a Standard or an Interpretation that specifically applies to an item.

   (b) To present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

   (c) To provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
Appendix 3

Issues to be Addressed in the Second Issues Paper

THE AUDITOR’S REPORT ON SUMMARIZED FINANCIAL STATEMENTS

Nature of the Engagement and Use of the Term “Consistent”

1. The project proposal inter alia recommends that consideration be given to the nature of an engagement to report on summarized financial statements, i.e. whether it is an audit, a related services engagement, or an other assurance engagement, and consequently whether this type of engagement should be included within the scope of the proposed revised ISA 800.

2. According to ED-ISA 200, paragraph 2, the objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. Paragraph 3 states that an audit of financial statements is an assurance engagement, as defined in the International Framework for Assurance Engagements. An “assurance engagement” means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the evaluation or measurement of a subject matter against criteria. As discussed in the Framework, a condition for acceptance of an assurance engagement is that the criteria referred to in the definition be “suitable criteria.”

3. According to the Glossary of Terms (which may need to be revised once the ISA 700 project is completed), “The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework. The phrases used to express the auditor’s opinion are ‘give a true and fair view’ or ‘present fairly, in all material respects,’ which are equivalent terms. A similar objective applies to the audit of financial or other information prepared in accordance with appropriate criteria.” It is not clear whether the reference to “other information” is intended to include summarized financial statements, since there is no applicable financial reporting or suitable (appropriate) criteria, and extant ISA 800 prohibits the expression of a “true and fair view” or “present fairly” opinion on the summarized financial statements – it merely provides for a “consistency report.”

4. The project proposal also highlighted the need to clarify what is meant when the auditor states that the summarized financial statements are “consistent” with the audited financial statements from which they are derived. Guidance on consistency that is provided by ISA 720, “Other Information in Documents Containing Audited Financial Statements,” paragraph 3, could be considered for this purpose. Such guidance is framed in terms of exception: “A ‘material inconsistency’ exists when other information contradicts information contained in the audited financial statements …” Thus, guidance on consistency could be provided in terms of matters that might give rise to inconsistency, for example, the use of account descriptions in the summarized financial statements that are incompatible with those in the complete set of financial statements.
It should be noted, however, that the Materiality Task Force requested the IAASB to reconsider the ISA 720 guidance because not all inconsistencies are material.

5. Guidance on consistency could alternatively be provided in terms of criteria such as:

- Whether the summarized information is in agreement with, or has been accurately extracted from, the complete set of audited financial statements; or
- Whether, in all material respects, the summarized financial statements contain the information necessary to avoid distorting or omitting significant matters disclosed in the complete set of financial statements, notwithstanding the fact that guidance should still draw readers’ attention to the complete set of financial statements for a full and proper understanding of the entity’s financial position, financial results and cash flows.
- Determining whether recognition should be given to the fact that there is no codified financial reporting framework for the preparation of summarized financial statements and that the form, content and presentation of such statements are a matter of national law, regulation or practice.

Equivalency of Different Wordings of the Opinion on Summarized Financial Statements

6. Extant ISA 800 requires the auditor to report whether the summarized financial statements are “consistent, in all material respects” with the complete set of financial statements from which they are derived. Other standard setters have chosen different wording for the auditor’s report, specifically:

- “fairly stated, in all material respects, in relation to…” (U.S. Section AU 552, “Reporting on Condensed Financial Statements and Selected Data”); and

7. The scope of the auditor’s work and the auditor’s responsibility may appear to be greater in the cases referred to above than in the case of extant ISA 800 because the term “fairly” implies a certain degree of completeness and representational faithfulness, notwithstanding the fact that the summarized financial statements do not contain all the disclosures required by the applicable financial reporting framework. Thus, consideration needs to be given to whether there is equivalency among the three different wordings, just as there is deemed equivalency between the terms “give a true and fair view” and “present fairly” used to express the auditor’s opinion on general purpose financial statements.

Nature, Timing and Extent of Procedures

8. The project proposal recommends that consideration is given to the following issues relating to the nature, timing and extent of procedures to be performed in relation to summarized financial:

Nature of Procedures

- Whether guidance should be provided regarding the nature of the procedures the auditor should undertake in reporting on summarized financial statements. Such procedures might include agreeing summarized financial statements to the complete set of audited financial
statements and evaluating whether, in all material respects, the summarized financial statements contain the information necessary to avoid distorting or omitting significant matters disclosed in the complete set of financial statements.

Extent of Procedures
- Whether to provide guidance to the auditor regarding agreeing the terms of the engagement with management.

- Whether guidance should be provided regarding the extent of the auditor’s examination of the financial information included in the summarized financial statements, for example, whether to examine 100% of the summarized financial statements or selected information only.

- Whether the auditor’s procedures should include ensuring that all information required to be disclosed in the summarized financial statements by law or regulation is in fact disclosed.

Timing of Procedures
- Whether to provide guidance regarding the timing of the auditor’s work, for example, whether the auditor ordinarily undertakes the work on the summarized financial statements at the same time as the audit of the complete set of financial statements so that the auditor’s report on the former can be issued at the same time as that on the latter.

THE AUDITOR’S REPORT ON FINANCIAL INFORMATION OF A COMPONENT PREPARED FOR INCLUSION IN GROUP FINANCIAL STATEMENTS

Audit Materiality
9. In relation to the auditor’s report on a component of a complete set of financial statements, extant ISA 800, paragraph 14, explains that a particular account balance provides a smaller base against which to measure materiality compared with the financial statements taken as a whole. However, in the case of an audit of group financial statements materiality for the component is determined in relation to materiality for the group as a whole and, as a result, often will be higher than materiality determined in relation to the component’s financial information.

STATING MANAGEMENT’S AND THE AUDITOR’S RESPONSIBILITY
10. ED-ISA 700, paragraph 25, requires that the auditor’s report state that management is responsible for the preparation and the fair presentation of the financial statements in accordance with the applicable financial reporting framework and that this responsibility includes: (a) maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (b) selecting and applying appropriate accounting policies that are consistent with the applicable financial reporting framework; and (c) making accounting estimates that are reasonable in the circumstances.

11. ED ISA 700, paragraphs 28 and 30, requires that the auditor’s report include a statement that the responsibility of the auditor is to express an opinion on the financial statements based on the audit. The auditor’s report should describe the scope of the audit by stating that the audit was conducted in accordance with ISAs and explain that those standards require that the auditor plan
and perform the audit to obtain reasonable, but not absolute, assurance whether the financial statements are free from material misstatement, whether due to fraud or error.

12. Extant ISA 800, paragraph 5, which excludes auditor’s reports on summarized financial statements, requires that the auditor’s report include a statement of the responsibility of the entity’s management and the responsibility of the auditor. Extant ISA 800, paragraph 25, which deals with the content of the auditor’s report on summarized financial statements, does not contain a similar requirement.

13. Consideration should be given as to whether the standards, guidance and examples in extant ISA 800 should be revised to be in line with the proposed standards, guidance and examples in ED-ISA 700.

CIRCUMSTANCES THAT REQUIRE ADDITIONAL EXPLANATORY LANGUAGE IN THE AUDITOR’S REPORT

14. AU Section 623 contains a section that deals with circumstances that, while not affecting the auditor’s unqualified opinion, may require that the auditor include additional explanatory language in the auditor’s report. These circumstances *inter alia* include:

- **Lack of consistency in accounting principles.** If there has been a change in accounting principles or in the method of their application, the auditor is required to add an explanatory paragraph to the report (following the opinion paragraph) that describes the change and refers to the note to the financial presentation (or specified elements, accounts, or items thereof) that discusses the change and its effect thereon if the accounting change is considered relevant to the presentation.

- **Going concern uncertainties.** If the auditor has substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time not to exceed one year beyond the date of the financial statement, the auditor is required to add an explanatory paragraph after the opinion paragraph of the report if the auditor’s substantial doubt is relevant to the presentation.

- **Comparative financial statements (or specified elements, accounts, or items thereof).** If the auditor expresses an opinion on prior-period financial statements (or specified elements, accounts, or items thereof) that is different from the opinion he previously expressed on that same information, the auditor is required to disclose all of the substantive reasons for the different opinion in a separate explanatory paragraph preceding the opinion paragraph of the report.

15. Consideration should be given as to whether standards and guidance on circumstances that require additional explanatory language in the auditor’s report on other historical financial information should be included in the proposed revised ISA 800.
16. The proposed revised ISA 700 and conforming amendments to ISA 560 clarify the date of the auditor’s report. It is proposed that this date be based on the date when the auditor has sufficient appropriate audit evidence to draw reasonable conclusions on which to base the auditor’s opinion. Frequently, this is the same date as the date of approval of the financial statements, but it could be later. The exposure draft also proposes the following definitions of the date of the financial statements and the dates when the financial statements are considered to be approved and issued:

“Date of the financial statements” is the date of the end of the latest period covered by the financial statements, which is normally the date of the most recent balance sheet in the financial statements subject to audit.

“Date of approval of the financial statements” is the date that the entity’s management or those charged with governance determines that a complete set of financial statements, including the related notes, has been prepared and approves such statements. The specific approval process followed by the entity depends on legal or regulatory requirements in the jurisdiction, or would be determined by the entity in the absence of such requirements. In some circumstances, the entity may be required to observe additional governance processes required by custom or regulation after the financial statements have been approved by management that may need to occur before the financial statements are considered “final.” For example, in some jurisdictions, the entity may be required to submit its financial statements to its shareholders for approval. However, this will usually occur at a date substantially later than the date management or those charged with governance approve the financial statements and does not affect the date which is considered to be the date of approval of the financial statements.

“Date the financial statements are issued” is the date that the auditor’s report and financial statements are made available to third parties, which may be, in many circumstances, the date that they are filed with a regulatory authority.

17. With regard to the auditor’s report on summarized financial statements, consideration should be given as to whether the date of the auditor’s report should be the same as that of the auditor’s report on the complete set of financial statements or whether it could be later. If both dates were to be the same, this might avoid giving the impression that the auditor’s report on the summarized financial statements in any way updates the auditor’s report on the complete set of financial statements. However, in practice, there may be circumstances in which the auditor is requested to report on summarized financial statements prepared well after the completion of the audit of, and the issue of the auditor’s report on, the complete set of financial statements. Consequently, it may be preferable for guidance to allow dating of the auditor’s report on the summarized financial statements at a later date.

18. Allowing dating of the auditor’s report on summarized financial statements at a later date; however, may lead to the auditor having a responsibility to consider subsequent events. There are a number of arguments that would indicate that the auditor does not have such a responsibility. One is that since reporting on summarized financial statements is not actually an audit as defined
in the Glossary of Terms, the auditor should have no responsibility for subsequent events. Another is the fact that the preparation of summarized financial statements simply involves the extraction of financial information that has already been audited, and the procedures performed by the auditor to provide a basis for the auditor’s report on the summarized financial statements do not involve obtaining any additional evidence regarding the complete set of financial statements. Therefore, it may be necessary to highlight that the auditor has no responsibility to consider subsequent events. Consideration should also be given to whether the auditor’s report on the summarized financial statements should include a statement that the auditor has not considered the effects of any events between the two dates.

LIMITATION OF USE AND DISTRIBUTION OF THE AUDITOR’S REPORT AND STANDARD DISCLAIMERS

19. Extant ISA 800, paragraph 4, states that, to avoid the possibility of the auditor’s report being used for purposes for which it was not intended, the auditor may wish to indicate in the report the purpose for which the report is prepared and any restrictions on its distribution and use.

20. It is necessary to strengthen this guidance because without identification of the objective and users of other historical financial information prepared for a special purpose, the auditor’s report could be misleading to other users or used for an unintended purpose.

21. Accordingly, consideration should be given as to whether to include/expand the standards and guidance on the following in the proposed revised ISA 800:

(a) Limitation of use and distribution of the auditor’s report.
(b) A disclaimer concerning use of the other historical financial information prepared for a special purpose and the auditor’s report for any unintended purpose.
(c) Circumstances (if any) in which the auditor’s opinion should include a disclaimer regarding the suitability of the basis of accounting (financial reporting framework) in satisfying the users’ needs.