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Proposed Changes to ISA 200, “Objective and General Principles Governing an Audit of Financial Statements” (CLEAN)

Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the objective and general principles governing an audit of financial statements. It also describes management’s responsibility for preparing and presenting the financial statements and for identifying the financial reporting framework to be used in preparing and presenting the financial statements, referred to in the ISAs as the “applicable financial reporting framework.”
 - 1a. The term “financial statements” refers to a structured representation of the financial information, which ordinarily includes accompanying notes, derived from accounting records and intended to communicate an entity’s economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. For purposes of the ISAs, the term “financial statements” can refer to a complete set of financial statements, or a single financial statement. Examples of a single financial statement are listed in Appendix 1 to this ISA. **[From extant ISA 200.34]**
 - 1b. The requirements of the applicable financial reporting framework determine the form and content of the financial statements and what constitutes a complete set of financial statements. For certain financial reporting frameworks, a single financial statement such as a cash flow statement and the related explanatory notes constitute a complete set of financial statements. For example, the International Public Sector Accounting Standard (IPSAS), “Financial Reporting Under the Cash Basis of Accounting” states that the primary financial statement is a statement of cash receipts and payments when a public sector entity prepares and presents its financial statements in accordance with that IPSAS. Financial statements prepared by reference to International Financial Reporting Standards (IFRSs), on the other hand, are intended to provide information about the financial position, financial performance and cash flows of an entity. A complete set of financial statements under IFRSs includes a balance sheet; an income statement; a statement of changes in equity; a cash flow statement; and notes, comprising a summary of significant accounting policies and other explanatory notes. **[From extant ISA 200.35]**
 - 1c. The ISAs are written in the context of an audit of financial statements. The ISAs apply to audits of both general purpose and special purpose financial statements. An auditor may, however, be engaged to audit one or more specific elements, accounts or items of a financial statement. See paragraphs 51i-51l.) **[From extant ED-ISA 701.6]**

Objective of an Audit of Financial Statements

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.** The wording the auditor uses to express the opinion (i.e., the form of opinion) depends on the applicable financial

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reporting framework and, when applicable, legislative and regulatory requirements governing the auditor's report (see paragraphs 51a-51c).

3. An audit of financial statements is an assurance engagement, as defined in the International Framework for Assurance Engagements. The Framework defines and describes the elements and objectives of an assurance engagement. The ISAs apply the Framework in the context of an audit of financial statements and contain the basic principles and essential procedures, together with related guidance, to be applied in such an audit. Paragraphs 33-36 discuss management's responsibility for the financial statements. **[Part of text of this paragraph moved to 36a]**

Ethical Requirements Relating to an Audit of Financial Statements

[No changes are proposed to paragraphs 4-5. As a result, they have not been reproduced here.]

Conduct of an Audit of Financial Statements

[No changes are proposed to paragraphs 6-9. As a result, they have not been reproduced here.]

Scope of an Audit of Financial Statements

[No changes are proposed to paragraphs 10-14. As a result, they have not been reproduced here.]

Professional Skepticism

[No changes are proposed to paragraphs 15-16. As a result, they have not been reproduced here.]

Reasonable Assurance

[No changes are proposed to paragraphs 17-21. As a result, they have not been reproduced here.]

Audit Risk and Materiality

[No changes are proposed to paragraphs 22-32. As a result, they have not been reproduced here.]

Responsibility for the Financial Statements

33. While the auditor is responsible for forming and expressing an opinion on the financial statements, the responsibility for preparing and presenting the financial statements in accordance with the applicable financial reporting framework is that of the management¹ of the entity, with oversight from those charged with governance.² The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
34. [Moved to ISA 200.1a]

¹ The term "management" has been used in this ISA to describe those responsible for preparing and presenting the financial statements. Other terms may be appropriate depending on the legal framework in the particular jurisdiction.

² The structures of governance vary from country to country, reflecting cultural and legal backgrounds. Therefore, the respective responsibilities of management and those charged with governance vary depending on the legal responsibilities in the particular jurisdiction.

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35. [Moved to ISA 200.1b]

36. Management is responsible for identifying the financial reporting framework to be used in preparing and presenting the financial statements. Management is also responsible for preparing and presenting the financial statements in accordance with that framework. This responsibility includes:

- Designing, implementing and maintaining internal control relevant to preparing and presenting financial statements that are free from material misstatement, whether due to fraud or error;
- Selecting and applying appropriate accounting policies; and
- Making accounting estimates that are reasonable in the circumstances.

Determining the Acceptability of the Applicable Financial Reporting Framework

36a. A condition for acceptance of an assurance engagement is that the criteria referred to in the definition of an assurance engagement are suitable and available to intended users (see paragraph 48i). Criteria are the benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. Suitable criteria are required for reasonably consistent evaluation or measurement of a subject matter within the context of professional judgment. **[From extant ISA 200.3]**

36b. For purposes of the ISAs, the applicable financial reporting framework provides the criteria the auditor uses to evaluate or measure the preparation and presentation of the financial statements. The applicable financial reporting framework may encompass financial reporting standards established by an authorized or recognized standards setting organization, legislative and regulatory requirements or, in the case of special purpose financial statements, financial reporting provisions established by a regulator or by a contract. **[From ED-ISA 701.10]**

36c. The applicable financial reporting framework may also encompass other sources, which provide direction on the application of the sources described in paragraph 36b, such as the following:

- The effect of the legal and ethical environment, including statutes, regulations, court decisions, and professional ethical obligations in relation to accounting matters;
- Published accounting interpretations of varying authority issued by standards setting, professional or regulatory organizations;
- Published views of varying authority on emerging accounting issues issued by standards setting, professional or regulatory organizations;
- General and industry practices widely recognized and prevalent; and
- Accounting literature. **[From ED-ISA 701.10]**

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- 36d. The auditor identifies the different sources encompassed in the applicable financial reporting framework, and considers their relative authority. Where conflicts exist, the source with the highest authority prevails.
37. **The auditor should determine whether the applicable financial reporting framework is acceptable.** The auditor ordinarily makes this determination when considering whether to accept the audit engagement, as discussed in ISA 210, “Terms of Audit Engagements.”
38. Factors that may affect the auditor’s determination of the acceptability of the applicable financial reporting framework include:
- The nature of the entity (for example, whether it is a business enterprise, a public sector entity or a not for profit organization);
 - The objective of the financial statements (for example, whether they are prepared and presented in accordance with a financial reporting framework designed to meet the financial information needs of specific users or a financial reporting framework designed to meet the common financial information needs of a wide range of users);
 - The nature of the financial statements (for example, whether the financial statements are a complete set of financial statements or a single financial statement); and
 - Whether applicable legislative and regulatory requirements prescribe the applicable financial reporting framework.
- 38a. When the auditor concludes that the applicable financial reporting framework is not acceptable, the auditor considers the implications in relation to engagement acceptance (see ISA 210) and the auditor’s report. **[From extant ISA 200.48]**
39. [Moved to ISA 200.48a-b]

Financial Reporting Frameworks Designed to Meet the Common Financial Information Needs of a Wide Range of Users

40. Many users of financial statements are not in a position to demand financial statements tailored to meet their specific information needs. While all the information needs of specific users cannot be met, there are financial information needs that are common to a wide range of users. Financial statements prepared and presented in accordance with a financial reporting framework designed to meet the common financial information needs of a wide range of users are referred to as “general purpose financial statements,” unless they have been prepared to meet the financial information needs of specific users. For purposes of the ISAs, financial statements prepared to meet the financial information needs of specific users are considered to be special purpose financial statements, even though they may have been prepared and presented in accordance with a financial reporting framework designed to meet the common financial information needs of a wide range of users (see paragraph 48c).

Financial Reporting Standards Established by Authorized or Recognized Standards Setting Organizations

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41. At present, there is no objective and authoritative basis that has been generally recognized globally for judging the acceptability of financial reporting frameworks designed to meet the common financial information needs of a wide range of users. Until such a basis exists, financial reporting standards established by organizations that are authorized or recognized to promulgate standards to be used by certain types of entities are presumed to be acceptable for general purpose financial statements prepared and presented by such entities provided the organizations follow an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders. Examples of such financial reporting standards include:

- IFRSs promulgated by the International Accounting Standards Board;
- IPSASs promulgated by the International Public Sector Accounting Standards Board; and
- Accounting principles promulgated by an authorized or recognized standards setting organization in a particular jurisdiction.

These financial reporting standards are often identified as the applicable financial reporting framework in legislative and regulatory requirements governing the preparation and presentation of general purpose financial statements.

Legislative and Regulatory Requirements

41a. In some jurisdictions, the financial reporting framework comprises primarily legislative and regulatory requirements for preparing and presenting general purpose financial statements. ISA 210 recognizes that deficiencies may exist in such frameworks and explains the effect that these may have on the auditor's decision to accept the engagement and on the auditor's report.

42. In some jurisdictions, legislative and regulatory requirements may supplement the financial reporting standards established by an authorized or recognized standards setting organization with additional requirements relating to preparing and presenting financial statements. This may, for example, be the case when legislative and regulatory requirements prescribe disclosures in addition to those required by the financial reporting standards or when they narrow the range of acceptable choices that can be made within the financial reporting standards. If the additional requirements conflict with the financial reporting standards, the auditor discusses the nature of the requirements with management and whether (a) the additional requirements can be met through additional disclosures, or (b) the description of the applicable financial reporting framework in the financial statements can be amended accordingly (see paragraph 48i). If this is not possible, the auditor considers whether it is necessary to modify the auditor's report, see [proposed] ISA 705, "Modifications to the Opinion in the Independent Auditor's Report" and ISA 706, "Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor's Report."

Jurisdictions that Do Not have an Authorized or Recognized Standards Setting Organization

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43. When an entity is registered or operating in a jurisdiction that has neither an authorized or recognized standards setting organization nor a financial reporting framework established by law or regulation, management identifies an applicable financial reporting framework. Practice in such jurisdictions is often to use the financial reporting standards established by one of the organizations described in paragraph 41. Alternatively, there may be established accounting conventions in a particular jurisdiction that are generally recognized as the financial reporting framework for general purpose financial statements prepared by certain specified entities operating in that jurisdiction. When such a financial reporting framework is adopted by management, the auditor determines whether the accounting conventions collectively can be considered to constitute an acceptable financial reporting framework for general purpose financial statements. When the accounting conventions are widely used in a particular jurisdiction, the accounting profession in that jurisdiction may have considered the acceptability of the financial reporting framework on behalf of the auditors. Alternatively, the auditor makes this determination by considering whether the accounting conventions exhibit attributes normally exhibited by acceptable financial reporting frameworks (see paragraph 44), or by comparing the accounting conventions to the requirements of an existing financial reporting framework considered to be acceptable (see paragraph 44a).
44. Acceptable financial reporting frameworks normally exhibit the following attributes that result in information provided in financial statements that is useful to the intended users:
- (a) Relevance, in that the information provided in the financial statements is 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 financial information needs of a wide range of users in making economic decisions. These needs are ordinarily met by presenting the financial position, financial performance and cash flows of the business enterprise.)
 - (b) Completeness, in that transactions and events, account balances and disclosures that could affect conclusions based on the financial statements are not omitted.
 - (c) Reliability, in that the information provided in the financial statements:
 - Where applicable, reflects the economic substance of events and transactions and not merely their legal form; and
 - Results in reasonably consistent evaluation, measurement, presentation and disclosure, when used in similar circumstances.
 - (d) Neutrality, in that it contributes to information in the financial statements that is free from bias.
 - (e) Understandability, in that the information in the financial statements is clear and comprehensive and not subject to significantly different interpretation.

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- 44a. The auditor may decide to compare the accounting conventions to the requirements of an existing financial reporting framework considered to be acceptable. For example, the auditor may compare the accounting conventions to IFRSs. For an audit of a small entity, the auditor may decide to compare the accounting conventions to a financial reporting framework specifically developed for such entities by an authorized or recognized standards setting organization. When the auditor makes such a comparison and differences are identified, the decision as to whether the accounting conventions adopted by management in preparing and presenting the financial statements constitute an acceptable financial reporting framework includes considering the reasons for the differences and whether application of the accounting conventions, or the description of the financial reporting framework in the financial statements (see paragraph 48i), could result in financial statements that are misleading. **[From extant ISA 200.47]**
45. A conglomeration of accounting conventions devised to suit individual preferences is not an acceptable financial reporting framework for general purpose financial statements.
46. [Moved to ISA 200.48i]
47. [Moved to ISA 200.44a]
48. [Moved to ISA 200.38a]

Financial Reporting Frameworks Designed to Meet the Financial Information Needs of Specific Users

- 48a. In some cases, the financial statements will be prepared and presented in accordance with a financial reporting framework designed to meet the financial information needs of specific users. Such financial statements are referred to as “special purpose financial statements.” The financial information needs of the intended users will determine the applicable financial reporting framework in these circumstances. Examples of financial reporting frameworks designed to meet the financial information needs of specific users are:
- A tax basis of accounting for a set of financial statements that accompany an entity’s tax return;
 - The cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors;
 - The financial reporting provisions established by a regulator to meet the requirements of that regulator; or
 - The financial reporting provisions of a contract, such as a bond indenture or a loan agreement. **[Moved from extant ISA 200.39]**
- 48b. Financial statements prepared and presented in accordance with a financial reporting framework designed to meet the financial information needs of specific users may be the only financial statements prepared by an entity and, in such circumstances, are often used by users in addition to those for whom the financial reporting framework is designed.

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Despite the broad distribution of the financial statements in those circumstances, the financial statements are still considered to be special purpose financial statements for purposes of the ISAs. **[Moved from extant ISA 200.39]**

- 48c. In some circumstances a financial reporting framework designed to meet the common financial information needs of a wide range of users may be adopted by management to prepare and present special purpose financial statements. For example, the financial reporting provisions of a contract may require an entity to prepare and present financial statements, which are not otherwise subject to audit, in accordance with IFRSs. Since such financial statements have been prepared to meet the financial information needs of specific users they are considered to be special purpose financial statements for purposes of the ISAs.
- 48d. Where the applicable financial reporting framework encompasses the financial reporting standards established by an organization that is authorized or recognized to promulgate standards for special purpose financial statements, those standards will be presumed to be acceptable for that purpose, provided the organization follows an established and transparent process involving deliberation and consideration of the views of relevant stakeholders. The financial reporting provisions established by a regulator to meet the requirements of that regulator are also presumed to be acceptable for special purpose financial statements.
- 48e. Where the applicable financial reporting framework comprises primarily legislative and regulatory requirements, reference is made to ISA 210. ISA 210 recognizes that deficiencies may exist in such frameworks and explains the effect that these may have on the auditor's decision to accept the engagement and on the auditor's report.
- 48f. Where the financial reporting standards referred to in paragraph 48d are supplemented by legislative and regulatory requirements, the auditor determines whether any conflicts between the financial reporting standards and the additional requirements exist. If such conflicts exist, the auditor follows the procedures in paragraph 42.
- 48g. Where the applicable financial reporting framework encompasses the financial reporting provisions of a contract; or sources other than, or in addition to, the financial reporting standards referred to in paragraph 48d and legislative and regulatory requirements referred to in paragraphs 48e and 48f, the auditor determines whether the financial reporting framework is acceptable in the circumstances by considering whether it exhibits attributes normally exhibited by acceptable financial reporting frameworks (see paragraph 44). In the case of a financial reporting framework designed to meet the financial information needs of specific users, the relative importance of each of these attributes to a particular engagement is a matter of professional judgment. For example, for purposes of a balance sheet prepared to establish the value of net assets of an entity at the date of its sale, the vendor and the purchaser may have agreed that very prudent estimates of allowances for uncollectible accounts receivable are to be made. This may result in financial information that is not neutral, but it may nevertheless be acceptable in the circumstances. **[From ED-ISA 701.11]**

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48h. There may be circumstances where a financial reporting framework designed to meet the financial information needs of specific users is based on, but does not comply with all the requirements of an established financial reporting framework. For example, a contract that requires financial statements to be prepared in accordance with most, but not all, of the Financial Reporting Standards of Country X. When this is the case, the auditor determines whether the applicable financial reporting framework is acceptable in the circumstances of the engagement by considering whether it exhibits attributes normally exhibited by acceptable financial reporting frameworks (see paragraph 44). Furthermore, the description of the applicable financial reporting framework in the financial statements (see paragraph 48i) does not imply full compliance with the established financial reporting standards. For example, in the case of a contract, the description of the applicable financial reporting framework may refer to the financial reporting provisions of the contract. **[From ED-ISA 701.12]**

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Description of the Financial Reporting Framework in the Financial Statements

- 48i. Criteria need to be available to the intended users to allow them to understand how the subject matter has been evaluated and measured. To enable the intended users to understand the applicable financial reporting framework, it is necessary to refer to or describe that framework adequately in the financial statements. The description includes information about the basis of preparation of the financial statements and the accounting policies selected and applied for significant transactions and other significant events. **If the financial statements do not adequately refer to, or describe, the applicable financial reporting framework, the auditor should consider whether to modify the audit opinion in the auditor's report in accordance with ISA 705. [From extant ISA 200.46 and ED-ISA 701.13]**

Expressing an Opinion on the Financial Statements

49. [Paragraph deleted]
50. [Paragraph deleted]
51. [Paragraph deleted]

Form of Opinion

- 51a. The form of opinion depends on whether the applicable financial reporting framework is a fair presentation framework. A fair presentation financial reporting framework is a framework that:
- (a) Provides a context for the evaluation of the fair presentation of the financial statements;³ and
 - (b) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond the specific requirements of the framework; or
 - (c) Acknowledges explicitly that, in extremely rare circumstances, it may be necessary for management to depart from the specific requirements of the framework to achieve fair presentation of the financial statements.
- 51b. Unless required by law or regulation to use different wording, the auditor's opinion on financial statements prepared and presented in accordance with a fair presentation financial reporting framework states whether the financial statements:

³ Although the framework may not specify how to account for or disclose all transactions or events, it ordinarily embodies sufficient broad principles that can serve as a basis for developing and applying accounting policies that are consistent with the concepts underlying the requirements of the framework. Thus, the framework provides a context for the auditor's evaluation of the fair presentation of the financial statements, including whether the financial statements have been prepared and presented in accordance with the specific requirements of the framework for particular classes of transactions, account balances and disclosures.

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- “give a true and fair view of” or “present fairly, in all material respects,” the information conveyed in the financial statements⁴ in accordance with the applicable financial reporting framework; or
- “are presented fairly, in all material respects,” in accordance with the applicable financial reporting framework.

The above phrases are equivalent for purposes of the ISAs. Which of these phrases is used in any particular jurisdiction is determined by the law or regulation governing the audit of financial statements in that jurisdiction, or by established practice in that jurisdiction. Where law or regulation requires the use of different wording, the auditor’s responsibility to evaluate the fair presentation of financial statements prepared and presented in accordance with a fair presentation framework is the same (see paragraph 51g). **[From ISA 700R.6 and ED-ISA 701.14-15]**

- 51c. In all other cases, the auditor’s opinion states whether the financial statements “have been prepared, in all material respects,” in accordance with the applicable financial reporting framework.

Forming an Opinion on the Financial Statements

- 51d. **The auditor should evaluate the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the financial statements. [From ISA 700R.11 and ED-ISA 701.20]**

- 51e. When forming an opinion on the financial statements, the auditor evaluates whether, based on the audit evidence obtained, there is reasonable assurance about whether the financial statements taken as a whole are free from material misstatement. This involves concluding whether sufficient appropriate audit evidence has been obtained to reduce to an acceptably low level the risks of material misstatement of the financial statements⁵ and evaluating the effects of uncorrected misstatements identified.⁶ **[From ISA 700R.12 and ED-ISA 701.21]**

- 51f. The auditor evaluates whether the financial statements have been prepared and presented in accordance with the specific requirements of the applicable financial reporting framework. This evaluation includes considering whether, in view of the specific requirements of the applicable financial reporting framework:

- (a1) The terminology used in the financial statements, including their titles, is appropriate; **[From ED-ISA 701.22(a)]**

⁴ For example, in the case of financial statements prepared and presented in accordance with IFRSs, the entity’s financial position, financial performance and cash flows.

⁵ See ISA 330, “The Auditor’s Procedures in Response to Assessed Risks.”

⁶ See ISA 320, “Audit Materiality.”

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- (a) The accounting policies selected and applied are consistent with the financial reporting framework and are appropriate; **[From ISA 700R.13(a)]**
- (b) The accounting estimates, if any, made by management are reasonable; **[From ISA 700R.13(b)]**
- (c) The information presented in the financial statements is relevant, reliable, comparable and understandable; **[From ISA 700R.13(c)]**
- (c1) The financial statements adequately refer to or describe the applicable financial reporting framework; **[From ED-ISA 701.22(f)]**
- (c2) The financial statements adequately disclose the significant accounting policies selected and applied, and significant interpretations by management of regulatory, legal or contractual requirements. In jurisdictions where the applicable financial reporting framework is so codified as to preclude a choice of accounting policies or significant interpretations by management, a reference to the applicable financial reporting framework may suffice; and **[From ED-ISA 701.22(g)]**
- (d) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements, for example, in the case of financial statements prepared and presented in accordance with IFRSs, the entity's financial position, financial performance and cash flows. **[From ISA 700R.13(d)]**

51g. Forming an opinion as to whether the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework (as described in paragraph 51b) also involves evaluating the fair presentation of the financial statements in the context provided by the applicable financial reporting framework. The auditor considers whether the financial statements, after any adjustments made by management as a result of the audit process, are consistent with the auditor's understanding of the entity and its environment. The auditor considers the overall presentation, structure and content of the financial statements. The auditor also considers whether the financial statements, including the note disclosures, faithfully represent the underlying transactions and events in a manner that gives a true and fair view of or presents fairly, in all material respects, the information conveyed in the financial statements in the context of the financial reporting framework. Analytical and other procedures performed at or near the end of the audit help to corroborate conclusions formed during the audit and assist in arriving at the overall conclusion as to the fair presentation of the financial statements. **[From ISA 700R.14 and ED-ISA 701.23]**

Extremely Rare Circumstances when Applying the Financial Reporting Framework Results in Misleading Financial Statements

51h. As discussed in ISA 210, the auditor considers the acceptability of the applicable financial reporting framework when considering whether to accept the engagement. In extremely rare circumstances, however, application of a specific requirement in a framework that has

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been determined to be acceptable may result in financial statements that are misleading in the particular circumstances of the entity. As explained in paragraph 51a, some financial reporting frameworks implicitly or explicitly acknowledge that it may be necessary for management to provide disclosures beyond the specific requirements of the framework, or explicitly acknowledge that in extremely rare circumstances it may be necessary for management to depart from a specific requirement in the framework, to achieve fair presentation of the financial statements.. If the auditor encounters circumstances that lead the auditor to conclude that the financial statements are misleading, the auditor considers the need to modify the opinion in the auditor's report. The modifications, if any, that are appropriate to the opinion will depend on how management addresses the matter in the financial statements and how the financial reporting framework deals with these rare circumstances (see [proposed] ISA 705). **[From ISA 700R.14 and ED-ISA 701.23]**

Audits of Specific Elements, Accounts or Items of a Financial Statement

- 51i. As noted in paragraph 1c, an auditor may be engaged to audit one or more specific elements, accounts or items of a financial statement. Examples of a specific element, account or item of a financial statement are listed in Appendix 1 to this ISA.
- 51j. Paragraph 4 requires the auditor to comply with relevant ethical requirements relating to an audit engagement. Paragraph 11 requires the auditor, in determining the audit procedures to be performed in conducting an audit in accordance with ISAs, to comply with each of the ISAs relevant to that audit. These requirements apply to an audit of a specific element, account or item of a financial statement. **[From ED-ISA 701.7]**
- 51k. When an audit of a specific element, account or item of a financial statement is conducted in conjunction with the audit of the financial statements of which it forms a part, the auditor may be able to use audit evidence obtained as part of the audit of the financial statements in the audit of the specific element, account or item. It is important, however, that the auditor plans and performs the audit of the specific element, account or item to obtain sufficient appropriate audit evidence to reduce audit risk for that specific element, account or item to an acceptably low level. For example, the materiality level determined for the specific element, account or item may be lower than the materiality level or levels determined for the financial statements; this will affect the nature, timing and extent of the audit procedures. **[From ED-ISA 701.7]**
- 51l. If an audit of a specific element, account or item of a financial statement is conducted separately from the audit of the financial statements of which it forms a part, compliance with each of the ISAs relevant to the audit requires careful consideration and may not be practicable. The auditor ordinarily does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the financial statements of which the specific element, account or item forms a part. In this case, the auditor considers whether the auditor has sufficient understanding of the entity and its environment, including its internal control, to perform an audit of the specific element, account or item of a financial statement. In addition, many financial statement items are

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interrelated. Accordingly, when auditing a specific element, account or item of a financial statement, the auditor may not be able to consider the specific element, account or item in isolation. Consequently, the auditor may need to perform additional procedures to meet the objective of an audit. Where an audit in accordance with ISAs is not practicable, the auditor discusses with management, before accepting the engagement, whether another type of engagement may be more practicable. **[From ED-ISA 701.7]**

Effective Date

52. This ISA is effective for audits of financial statements for periods beginning on or after [date].

Public Sector Perspective

[No changes are proposed to the PSP. The PSP is also not necessary to provide context to the proposed changes. As a result, it has not been reproduced here.]

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Appendix 1

Examples of a Single Financial Statement and Examples of a Specific Element, Account or Item of a Financial Statement

Examples of a single financial statement include the following:

- Balance sheet and related explanatory notes.
- Statement of income or statement of operations and related explanatory notes.
- Statement of retained earnings and related explanatory notes.
- Statement of cash flows and related explanatory notes.
- Statement of changes in owners' equity and related explanatory notes.
- Statement of assets and liabilities that does not include owners' equity and related explanatory notes.
- Statement of revenue and expenses and related explanatory notes.
- Statement of operations by product lines and related explanatory notes.
- Statement of cash receipts and disbursements and related explanatory notes.

Examples of specific elements, accounts or items of a financial statement include the following:

- Accounts receivable, allowance for doubtful accounts receivable, inventory, the liability for accrued benefits of a private pension plan, the recorded value of identified intangible assets, or the liability for "incurred but not reported" claims in an insurance portfolio.
- A schedule of externally managed assets and income of a private pension plan.
- A schedule of net tangible assets.
- A schedule of disbursements in relation to a lease property.
- A schedule of profit participation or employee bonuses.

[From ED-ISA 701]