

IAASB CAG PAPER

IAASB CAG Agenda (March 2008)

Agenda Item C.3.3.3

Clarity – Proposed ISA 800 (Revised and Redrafted)

Matters for CAG Consideration—Proposed ISA 800 (Revised and Redrafted), “Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement”

1. Thirty-nine comment letters were received. On balance, respondents were in agreement with the application of the clarity conventions.

Objective

2. The proposed ISA contained the following objective:

“The objective of the auditor is to apply the ISAs by addressing the special considerations that are relevant to:

(a) The acceptance of an engagement to audit special purpose financial statements or a specific element, account or item of a financial statement; and

(b) The planning and performing of, and reporting on, that audit.”

3. Approximately half of the respondents explicitly supported the proposed objective; a few suggested refinement. Many other respondents, however, did not support the proposed objective. A few found the text of the objective to be unclear or overly complex. A few were of the view that the proposed ISA did not contain requirements that directly related to part (a). Some were of the view that the objective did not need to make specific reference to acceptance, planning, performance and reporting, as these were covered by the objectives of other ISAs.
4. Suggested alternatives included the following:

“The objective of the auditor is to take account of the special considerations in the application of ISAs to the audits of special purpose financial statements and specific elements, accounts or items of a financial statement.”

“The objective of the auditor is to appropriately address the special considerations that are relevant to an audit of special purpose financial statements or a specific element, account or item of a financial statement.”

Requirements

5. The majority of respondents were of the view that the criteria identified by the IAASB for determining whether a requirement should be specified have been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and reporting, and the use of professional judgment by auditors.
6. Although some respondents commented on the appropriateness of some of the requirements or suggested refinement, no single requirement received a significant number of comments.

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Significant Comments that Do Not Relate to the Application of the Clarity Conventions

7. Representatives may recall that extant ISA 800¹ was subject to full revision in a project that led to the finalization of a close off document. (A close off document is a final version of a standard whose revision had commenced before the clarity drafting conventions had been finalized. Absent the Clarity project, a final standard would have been issued rather than a close off document and the project would have ended at that time. It was the IAASB's intention that any close off document should be converted to a clarified version without further consideration of substantive issues.) Inevitably, as elements of extant ISA 800 were quite controversial, some respondents took the opportunity to seek to reopen aspects of the close off document with which they disagreed. These are summarized below.

Scope of the ISA

8. Proposed ISA 800 (Revised and Redrafted) deals with special considerations relevant to an audit of special purpose financial statements, while proposed ISA 700 (Redrafted) deals with forming an opinion and reporting on general purpose financial statements.
9. Paragraph 14 of the Basis for Conclusions: Close Off Document—ISA 800 (Revised)² notes that the IAASB was of the view that restricting the scope of ISA 700 to auditors' reports on general purpose financial statements and the scope of ISA 800 to auditors' reports on special purpose financial statements would provide a clear indication as to where to look for requirements and guidance relevant to auditors' reports. It explains that:
- The terms “general purpose financial statements” and “special purpose financial statements” are defined with reference to the purpose for which the applicable financial reporting framework is designed. In the case of general purpose financial statements the applicable financial reporting framework is designed to meet the common information needs of a broad range of users and in the case of special purpose financial statements the applicable financial reporting framework is designed to meet the special financial information needs of specific users.
 - Both ISAs 700 and 800 specify that an applicable financial report framework can be either a fair presentation framework or a compliance framework.
 - Further, since financial statements in the ISAs refer to a complete set of financial statements or a single financial statement, both ISAs 700 and 800 address reporting on complete sets of financial statements and single financial statements, such as a balance sheet. (In fact, ISA

¹ Extant ISA 800, “The Independent Auditor’s Report on Special Purpose Audit Engagements” included material on special purpose financial statements and on summarized financial statements. In revising and redrafting the standard, it was divided into two standards, i.e., proposed ISA 800 (Revised and Redrafted), “Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement” and proposed ISA 805 (Revised and Redrafted), “Engagements to Report on Summary Financial Statements.”

² The Basis for Conclusions: Close Off Document—ISA 800 (Revised) can be accessed at <http://www.ifac.org/IAASB/Resources.php#BasisForConclusions>.

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800 goes further and extends all of the above concepts to auditors' reports on a specific element, account or item of a financial statement.)

10. A few respondents asked for clarification with respect to the scope of proposed ISA 800 (Revised and Redrafted) versus that of ISAE 3000³ regarding audits of historical financial information other than financial statements or a specific element, account or item of a financial statement.
11. A few respondents expressed concerns about the scope of proposed ISA 800 (Revised and Redrafted) versus that of proposed ISA 700 (Redrafted). They had varying views as to how their concerns should be addressed.
12. One respondent believed that the scope of ISA 700 should be restricted to auditors' reports in which the auditor expresses a "give a true and fair view" or "present fairly, in all material respects," opinion. (That is what the Basis for Conclusions: Close Off Document—ISA 800 (Revised) referred to as a split based on form of opinion, where ISA 700 would deal with "give a true and fair view" or "present fairly, in all material respects," opinion, while ISA 800 would deal with other forms of opinion. At the time, the IAASB did not adopt this option.) This respondent was of the view that auditors' reports on general purpose financial statements prepared in accordance with compliance frameworks, which essentially result in "properly prepared" opinions, should be within the scope of ISA 800 (as opposed to ISA 700), even though the financial statements are general purpose financial statements.
13. Another respondent, however, believed that the scope of ISA 700 should be expanded to include auditors' reports on financial statements prepared in accordance with a special purpose framework, when such financial statements are prepared for broad distribution (as is sometimes the case with financial statements prepared in accordance with financial reporting frameworks that are accepted by law or regulation).
14. A few respondents had varying views on how audits of a specific element, account or item of a financial statement should be treated:
 - (a) One respondent suggested that the scope of ISA 800 be restricted to such audits since audits of special purpose financial statements could be easily incorporated in other ISAs.
 - (b) Another respondent, however, was concerned about including such audits within the scope of ISA 800 since it did not believe that it was appropriate to apply the full suite of ISAs to an audit of a specific element, account or item of a financial statement.
 - (c) Another respondent suggested that the requirements and guidance for audits of specific elements, accounts or items of a financial statement be moved to an ISAE.

³ International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information."

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Form of Opinion—Audits of Specific Elements, Accounts or Items of a Financial Statement

15. **Paragraph A23 of proposed ISA 800 (Revised and Redrafted)** read as follows:

“Unless otherwise required by law or regulation, in accordance with [proposed] ISA 200 (Revised and Redrafted) in conjunction with [proposed] ISA 700 (Redrafted), the opinion paragraph of the auditor’s report on an element states that the element gives a true and fair view or presents fairly, in all material respects, in accordance with the applicable financial reporting framework when that framework is a fair presentation framework. In all other cases, the auditor’s opinion states that the element is prepared, in all material respects, in accordance with the applicable financial reporting framework ...”

16. Some respondents did not support the proposed guidance. They did not believe that it was appropriate to express a “give a true and fair view” or “present fairly, in all material respects,” opinion on a specific element, account or item of a financial statement. Some respondents believed that such an opinion was appropriate only for a complete set of financial statements prepared in accordance with a fair presentation framework. Another respondent was of the view that such an opinion is also appropriate for a balance sheet prepared in accordance with a fair presentation framework.
17. Some respondents believed that the IAASB should acknowledge that, under some financial reporting frameworks (including International Financial Reporting Standards and certain European financial reporting frameworks), presenting a single financial statement or a specific element, account or item of a financial statement in isolation may not be adequate for purposes of claiming compliance with that specific framework.
18. To recognize this, some respondents suggested that the IAASB consider specifying that, in some jurisdictions, the phrase “give a true and fair view” is historically associated, in law or practice, with a complete set of financial statements, whereas the phrase “present fairly, in all material respects,” has more often been associated with a single financial statement or a specific element, account or item of a financial statement.
19. Another respondent suggested that ISA 800 address this type of issue by permitting (as opposed to requiring) a “give a true and fair view” or “present fairly, in all material respects,” opinion on a specific element, account or item of a financial statement. This respondent suggested the following change to paragraph A23 of proposed ISA 800 (Revised and Redrafted):

When forming an opinion on an element, the auditor may need to determine the appropriate opinion in the circumstances. Unless otherwise required by law or regulation, in accordance with [proposed] ISA 200 (Revised and Redrafted) in conjunction with [proposed] ISA 700 (Redrafted), For example, when the applicable financial reporting framework is a fair presentation framework, the opinion paragraph of the auditor’s report on an element may states that the element gives a true and fair view or presents fairly, in all material respects, in accordance with the applicable financial reporting framework when that framework is a fair presentation framework. In all other cases other circumstances, the auditor’s opinion may

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states that the element is prepared, in all material respects, in accordance with the applicable financial reporting framework.

Matters for Consideration by CAG:

- Q1. Do Representatives have any views with regard to the comments relating to the proposed objective?
- Q2. In principle, the IAASB is entitled to ignore comments that go beyond the clarity drafting conventions, since these had all been considered in the process of finalizing the close off document of ISA 800 (Revised). Do Representatives have any views on the subject matter of those comments that might suggest a different approach?
- Q3. Are there any other comments that Representatives may wish to raise?

Material Presented – IAASB CAG REFERENCE PAPER

Available at
<http://www.ifac.org/Guidance/EXD-Details.php?EDID=0093>

Exposure Draft of Proposed ISA 800 (Revised and Redrafted) (including the explanatory memorandum)