

March 2009

**Basis for Conclusions:
ISA 810 (Revised and
Redrafted), Engagements to
Report on Summary Financial
Statements**

*Prepared by the Staff of the International Auditing and
Assurance Standards Board*



**International Federation
of Accountants**

**BASIS FOR CONCLUSIONS:
ISA 810 (REVISED AND REDRAFTED), ENGAGEMENTS TO REPORT ON
SUMMARY FINANCIAL STATEMENTS**

This Basis for Conclusions has been prepared by staff of the International Auditing and Assurance Standards Board (IAASB). It relates to, but does not form part of, ISA 810 (Revised and Redrafted), “Engagements to Report on Summary Financial Statements,” which was approved by the IAASB in September 2008.¹

Background

1. In June 2005, the IAASB issued an exposure draft of proposed ISA 800 (Revised).² The comment period for the proposed ISA closed on October 31, 2005. The IAASB gave due consideration to the comments received. The IAASB decided to renumber ISA 800 (Revised) to ISA 805 (Revised) and it approved a “close off” document of ISA 805 (Revised)³ in the “old style” (i.e., following the drafting conventions for extant ISAs) in July 2006.⁴ The IAASB’s Clarity conventions were applied to that document. An exposure draft of proposed ISA 805 (Revised and Redrafted) (ED-ISA 805) was published in July 2007.
2. The Clarity conventions used by the IAASB in redrafting its ISAs, and the authority and obligation attaching to those conventions, are established in ISA 200 (Revised and Redrafted).⁵
3. The comment date for the exposure draft was November 30, 2007. The IAASB received 40 comment letters from a variety of respondents, including IFAC member bodies and other professional organizations, national auditing standard setters, audit firms, public sector organizations, regulators and oversight authorities. Input was also received from IFAC’s Small and Medium Practices Committee. The IAASB made changes to ED-ISA 805, which included renumbering the ISA to ISA 810 (Revised and Redrafted), in response to these

¹ See minutes of the September 15-19, 2008 IAASB meeting at <http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0143>.

² Proposed ISA 800 (Revised), “The Independent Auditor’s Report on Summarized Audited Financial Statements.” The number and title of the ISA changed several times during its development. The Close Off Document was ISA 805 (Revised), “Engagement to Report on Summary Financial Statements.” The exposure draft of the proposed redrafted ISA was ISA 805 (Revised and Redrafted), “Engagements to Report on Summary Financial Statements.” The number was changed to 810 when it was approved as a final revised and redrafted ISA, i.e., ISA 810 (Revised and Redrafted), “Engagements to Report on Summary Financial Statements.”

³ Close Off Document—ISA 805 (Revised), “Engagements to Report on Summary Financial Statements” is available on the IAASB website at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0094>.

⁴ The Basis for Conclusions: Close Off Document—ISA 805 (Revised) is available on the IAASB website at <http://www.ifac.org/Guidance/EXD-Download.php?EDFID=00263>.

⁵ ISA 200 (Revised and Redrafted), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing” contains the final statement of the authority and obligation attaching to the Clarity conventions. It is available on the IAASB website at: <http://www.ifac.org/Members/DownLoads/isa-200-revised-and-redrafted-overall-objectives-of-the-independent-auditor.pdf>.

comments. In addition, the IAASB discussed significant issues in the finalization of ISA 810 (Revised and Redrafted) with its Consultative Advisory Group (CAG). The CAG did not have significant comments on the matters highlighted for their consideration.

4. This Basis for Conclusions explains the more significant issues raised by respondents on ED-ISA 805, and how the IAASB addressed them.

Scope of the ISA—Summary Financial Statements Included in Documents Relating to Securities Offered to the Public

5. Paragraph 1 of the Close Off Document—ISA 805 (Revised) stated that the requirements and guidance in the ISA do not apply when reporting on summary financial statements included in documents relating to securities offered to the public as the ISA was not drafted with such documents in mind. This was deleted in ED-ISA 805 as the matter was being considered as part of another project. A few respondents to ED-ISA 805 explicitly agreed with the deletion. A respondent indicated that it was appropriate for the ISA to be silent on the matter; leaving it to regulators to decide whether the the ISA meets their needs. A few other respondents, however, were of the view that the sentence should be reinstated as it clarifies the scope of the ISA.
6. The IAASB did not consider it necessary to amend its decision by excluding specifically from the scope of ISA 810 (Revised and Redrafted) engagements to report on summary financial statements included in documents relating to securities offered to the public. The IAASB agreed that it should be left to regulators and others to decide whether the ISA meets their needs.

Objective

7. Paragraph 4 of ED-ISA 805 contained the following objective:

The objective of the auditor is to express an opinion whether the summary financial statements are a fair summary of the audited financial statements in accordance with the applied criteria.
8. Approximately half of the respondents explicitly supported the proposed objective; a few suggested refinement. Many respondents, however, did not support it; mostly because they were concerned about or disagreed with the wording of the opinion on summary financial statements (see paragraphs 12-17 of this paper). A few respondents were of the view that the objective was not aligned with the requirements, as the requirements also dealt with engagement acceptance and performance.
9. The IAASB agreed that the objective should be aligned with the requirements of the ISAs. This is in line with the objectives for ISA 800 (Revised and Redrafted)⁶ and ISA 805 (Revised and Redrafted).⁷ Paragraph 3 of ISA 810 (Revised and Redrafted) therefore contains the following objectives:

⁶ ISA 800 (Revised and Redrafted), “Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.”

⁷ ISA 805 (Revised and Redrafted), “Special Considerations—Audits of Historical Financial Information Prepared in Accordance with Special Purpose Frameworks.”

The objectives of the auditor are to:

- (a) Determine whether it is appropriate to accept the engagement to report on summary financial statements;
- (b) Form an opinion on the summary financial statements based on an evaluation of the conclusions drawn from the evidence obtained; and
- (c) Express clearly that opinion through a written report that also describes the basis for that opinion.

Requirements

10. 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.
11. Although some respondents commented on the appropriateness of some of the requirements or suggested refinement, no single requirement other than that relating to the form of opinion received a significant number of comments.

Form of Opinion

12. Paragraph 24 of extant ISA 800⁸ requires that the auditor's report include an opinion as to whether the information in the summarized financial statements is consistent with the audited financial statements from which it was derived. The opinions in the examples of reports in the appendix to extant ISA 800 contain the phrase "consistent, in all material respects." This phrase is used in certain jurisdictions, while standard setters in other jurisdictions have chosen different phrases, such as "fairly stated, in all material respects, in relation to ..." and "fairly summarized, in all material respects, ..." In revising extant ISA 800, the IAASB considered such alternative phrases, but concluded that they were not appropriate because they may be confused with "present fairly, in all material respects," used in the context of the underlying audited financial statements.
13. The exposure draft of proposed ISA 800 (Revised)⁹ issued in June 2005 proposed that the auditor express an opinion on whether the summary financial statements are an appropriate summary of the audited financial statements from which they are derived, in accordance with the applied criteria. The IAASB proposed that form of opinion because it was concerned that the extant wording may be subject to different interpretation, especially because of translation issues. A small majority of respondents to that exposure draft did not support the proposed wording for the opinion. After considering comments received at that time, the IAASB agreed that the auditor should express an opinion on whether the summary financial statements are a fair summary of the audited financial statements in accordance with the applied criteria. That was based on the fact that the required procedures include an evaluation whether, in view of the applied criteria, the summary financial statements contain the information necessary so as not to be

⁸ Extant ISA 800, "The Independent Auditor's Report on Special Purpose Audit Engagements."

⁹ Proposed ISA 800 (Revised), "The Independent Auditor's Report on Summary Audited Financial Statements."

misleading in the circumstances. The IAASB also agreed that the ISA should provide for circumstances where national law or regulation prescribes different wording for the opinion. This was reflected in the Close Off Document—ISA 805 (Revised) and in ED-ISA 805. The Explanatory Memorandum that accompanied ED-ISA 805 consulted on the IAASB’s decision with regard to the form of opinion.

14. A few respondents to ED-ISA 805 explicitly supported the proposed wording of the opinion, commenting on its clear and unambiguous nature and the fact that ED-ISA 805 provided for flexibility in the form of opinion when law or regulation prescribes different wording. Approximately half of the respondents, however, did not support the proposed wording. They were concerned that the term “fair summary” was not explained, may be confused with the concept of “fair presentation,” may create a second layer of judgment and subjectivity regarding “fairness,” or may be misunderstood when translated.
15. A respondent expressed the view that, if the opinion states that the summary financial statements are a fair summary of the audited financial statements, the auditor should be required to actively search for subsequent events between the date of the auditor’s report on the financial statements and the date of the auditor’s report on the summary financial statements. Another respondent noted that the auditor’s responsibility in respect of summary financial statements is not to audit them, but to apply procedures to ensure that they agree with or can be recalculated from the related information in the audited financial statements. Although the auditor is required to evaluate whether the summary financial statements contain the information necessary so as not to be misleading in the circumstances, this is equivalent to the auditor’s ethical responsibility not to be associated with misleading information.
16. After considering the comments on this exposure draft, taken with comments on the previous exposure draft, it was apparent to the IAASB that there was no clear consensus amongst the respondents as to alternative wording for the opinion. In deciding on the way forward, the IAASB carefully considered: (a) comments supporting reference to fair summary and the concerns expressed about such a reference; (b) the fact that many of the respondents to the exposure draft of proposed ISA 800 (Revised) issued in June 2005 and to ED-ISA 805 indicated a preference for the existing phrase, i.e., “consistent, in all material respects;” and (c) the fact that ED-ISA 805 provided for the auditor, in specified circumstances, to use wording for the opinion that is prescribed by law or regulation.
17. Based on the above considerations, the IAASB agreed that there was no public interest reason to insist on a globally uniform approach when opinion was so divided, often because of different jurisdictional starting points. Accordingly, it was decided that the ISA should permit both the phrases “consistent, in all material respects,” and “fair summary.” See paragraph 9 of ISA 810 (Revised and Redrafted). Paragraph A9 explains that a conclusion, based on an evaluation of the evidence obtained by performing the required procedures, that an unmodified opinion on the summary financial statements is appropriate enables the auditor to express an opinion containing one of the phrases. The auditor’s decision as to which of the phrases to use may be affected by generally accepted practice in the particular jurisdiction. Lastly, paragraphs 10-11 of ISA 810 (Revised and Redrafted) deal with circumstances when law or regulation prescribes different wording.

Subsequent Events

18. In finalizing ISA 810 (Revised and Redrafted), an IAASB member felt strongly that there should be some obligation on the auditor to consider events between the date of the auditor's report on the audited financial statements and the date of the auditor's report on the summary financial statements. The IAASB debated whether to include additional guidance in the proposed ISA. Reference was made to the fact that: (a) the auditor is reporting on whether the summary financial statements are a fair summary of, or consistent with, the audited financial statements and not on whether the summary financial statements achieve fair presentation; (b) the illustrations of auditors' reports in the appendix to the ISA clearly indicate that the summary financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements; and (c) the *Code of Ethics for Professional Accountants* provides for the auditor not to be associated with misleading information. The IAASB agreed not to change the proposed ISA.