

Clean**Proposed Amended ISA 200, “Objective and General Principles Governing an Audit of Financial Statements”****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.
 - 1a. The ISAs apply to the audit of historical financial information. For the purposes of the ISAs, “historical financial information” is defined as information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
 - 1b. The most common form of historical financial information subject to audit is financial statements. Consequently, the ISAs are written in the context of an audit of financial statements and are adapted, as necessary in the circumstances, to audits of other historical financial information. For purposes of the ISAs, the term “financial statements” can refer to a complete set of financial statements, or a single financial statement.¹ A financial statement is a structured representation of historical financial information, which ordinarily includes related explanatory notes, 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. The financial reporting framework may be designed to meet the common financial information needs of a wide range of users (“general purpose financial statements”) or to meet the financial information needs of specific users (“special purpose financial statements”).

Objective of an Audit of Financial Statements

[The Special Reports Task Force is not proposing changes to paragraphs 2 and 3, which are considered as part of the Clarity project.]

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.]

¹ Examples of a single financial statement are listed in the Appendix to this ISA.

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. [Management’s responsibility for the financial statements (which includes establishing a control environment and designing, implementing and maintaining controls), as well as the oversight responsibility of those charged with governance, are being considered by the Written Representations Task Force and the Clarity Task Force. The Special Reports Task Force therefore is not proposing changes to paragraph 33, but instead will accept the proposals of the other two Task Forces.]
34. [Moved elsewhere.]
35. [Moved elsewhere.]
36. Management is responsible for identifying the financial reporting framework to be adopted in preparing and presenting the financial statements. Management is also responsible for preparing and presenting the financial statements in accordance with that framework, and adequately describing that framework in the financial statements. Management’s responsibility for preparing and presenting the financial statements 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 (see paragraph 33);
 - Selecting and applying appropriate accounting policies; and
 - Making accounting estimates that are reasonable in the circumstances.
- 36a. The applicable financial reporting framework often encompasses financial reporting standards established by an authorized or recognized standards setting organization, or legislative or regulatory requirements. In some cases the financial reporting framework may encompass both financial reporting standards established by an authorized or recognized standards setting organization and legislative or regulatory requirements. Some financial reporting frameworks may also encompass other sources, or may encompass only such other sources. In other cases, such other sources may provide direction on the application of the financial reporting framework. Such other sources may include:
 - 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.

Where conflicts exist amongst the sources that encompass the financial reporting framework, or between the financial reporting framework and the sources from which management has obtained direction on the application of the framework, the source with the highest authority prevails.

36b. The requirements of the applicable financial reporting framework determine the form and content of the financial statements. 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.

36c. Some financial reporting frameworks:

- (a) Acknowledge 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
- (b) Acknowledge explicitly that, in extremely rare circumstances, it may be necessary for management to depart from a specific requirement of the framework to achieve fair presentation of the financial statements.

For purposes of the ISAs, such frameworks are referred to as “fair presentation frameworks.” Financial reporting frameworks that encompass primarily the financial reporting standards established by an organization that is authorized or recognized to promulgate standards to be used by entities for preparing and presenting general purpose financial statements (see ISA 210, “Terms of Audit Engagements”) are often designed to achieve fair presentation, for example, International Financial Reporting Standards (IFRSs).

36d. Other financial reporting frameworks only require compliance with the specific requirements of the framework, that is, the acknowledgements in paragraph 36c do not exist. For purposes of the ISAs, such frameworks are referred to as “compliance frameworks.”

36e. The requirements of the applicable financial reporting framework also determine what constitutes a complete set of financial statements. In the case of many frameworks, financial statements are intended to provide information about the financial position, financial performance and cash flows of an entity. For such frameworks, a complete set of financial statements would include a balance sheet; an income statement; a statement of changes in equity; a cash flow statement; and related explanatory notes, comprising a summary of significant accounting policies and other explanatory notes. For some other financial reporting frameworks, a single financial statement and the related explanatory notes might 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.

[Paragraphs 37-48h have been moved to ISA 210 and ISA 800.]

Forming an Opinion on the Financial Statements [To be moved to proposed new ISA]

49. [Deleted]

50. [Deleted]

51. [Deleted]

51a. The auditor should evaluate the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the financial statements.

51b. When forming an opinion on the financial statements, the auditor evaluates whether, based on the audit evidence acquired, reasonable assurance has been obtained 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 statements² and evaluating the effects of uncorrected misstatements identified.³

51c. 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:

- (a) The financial statements adequately refer to or describe the applicable financial reporting framework;
- (b) The financial statements adequately disclose the significant accounting policies selected and applied, and significant interpretations by management of regulatory or legal 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;
- (c) The accounting policies selected and applied are consistent with the financial reporting framework and are appropriate;
- (d) The accounting estimates made by management are reasonable;
- (e) The information presented in the financial statements is relevant, reliable, comparable and understandable;

² See ISA 330, “The Auditor’s Procedures in Response to Assessed Risks.”

³ See ISA 450, “Evaluation of Misstatements Identified during the Audit.”

- (f) 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; and
- (g) The terminology used in the financial statements, including their titles, is appropriate.

51d. Forming an opinion on financial statements prepared and presented in accordance with a fair presentation framework also involves evaluating whether those financial statements achieve fair presentation. The auditor considers the overall presentation, structure and content of the financial statements. The auditor also considers whether the financial statements, including the related explanatory notes, faithfully represent the underlying transactions and events in a manner that achieves fair presentation. There may be cases where the financial statements, although prepared and presented in accordance with the specific requirements of the applicable financial reporting framework, do not achieve fair presentation. Where this is the case, management provides disclosures beyond the specific requirements of the framework or, in extremely rare circumstances, departs from a specific requirement in the framework to achieve fair presentation of the financial statements, as explained in paragraph 36c. If management does not do so, the auditor considers the need to modify the opinion in the auditor's report in accordance with ISA 705, "Modifications to the Opinion in the Independent Auditor's Report."

51e. In cases where a compliance framework is required to be used, or is otherwise accepted by the auditor as an appropriate financial reporting framework in the circumstances of the entity, it is likely that the framework is both generally understood and accepted by preparers and users of the financial statements. It is therefore extremely rare for the auditor to consider financial statements prepared and presented in accordance with a compliance framework, which the auditor has determined to be acceptable in the circumstances of the entity, to be misleading in the circumstances of the entity. However, if the auditor encounters such extremely rare circumstances (i.e., where, in the auditor's professional judgment, the financial statements are misleading), the auditor discusses the matter with management and considers the need to modify the auditor's report. The modification to the auditor's report, if any, will depend on whether, and how, management addresses the matter in the financial statements.

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.]

Appendix 1

Examples of a Single 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.