

The Auditor's Report on Financial Statements Proposed Revisions to ISA 800

Note to IAASB: The following is a mark-up of the proposed wording presented on the Friday morning of the Tokyo meeting.

ISA 800, THE INDEPENDENT AUDITOR'S REPORT ON SPECIAL PURPOSE AUDIT ENGAGEMENTS

Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance in connection with special purpose audit engagements including:
 - A complete set of financial statements prepared in accordance with a ~~basis of accounting other than a~~ financial reporting framework that is ~~presumed to be acceptable for general purpose financial statements~~ designed for a special purpose (as defined in ISA 200, "Objectives and General Principles Governing an Audit of Financial Statements"), referred to as another comprehensive basis of accounting;
 - A component of a complete set of financial statements, such as including an individual financial statement, such as a balance sheet, single financial statement, or specified accounts, elements of accounts, or items in a financial statement;
 - Compliance with contractual agreements; and
 - Summarized financial statements.

This ISA does not apply to review, agreed-upon procedures or compilation engagements.

[Paragraphs 2 – 8 unchanged]

Reports on Financial Statements Prepared in Accordance with Another Comprehensive Basis of Accounting

9. A comprehensive basis of accounting comprises a set of criteria used in preparing financial statements which applies to all material items and which has substantial support. As discussed in ISA 200, "Objective and General Principles Governing an Audit of Financial Statements", Financial-financial statements that are not prepared to meet the common information needs of a wide range of users may be prepared for a special purpose to meet the financial information needs of specifically identified users. The needs of such users will determine the applicable financial reporting framework in such circumstances (which is referred to in this ISA as an other comprehensive basis of accounting). in accordance with another comprehensive basis of accounting other than International Accounting Standards or relevant national standards (referred to herein as an "other comprehensive basis of accounting"). A conglomeration of accounting conventions devised to suit individual preference is not a comprehensive basis of accounting. Other comprehensive Examples of financial reporting frameworks that are designed to address the needs of specifically identified users financial reporting frameworks may include:
 - That used by an entity to prepare its The tax basis of accounting for a set of financial statements that accompany an entity's income-tax return.

- The cash receipts and disbursements basis of accounting for cash flow information that a profit-oriented enterprise may be requested to prepare by creditors.
- The financial reporting provisions of a government regulatory agency for a set of financial statements prepared for regulatory purposes.

~~**{Paragraphs 10–11 unchanged}**~~

10. **The auditor's report on financial statements prepared in accordance with another comprehensive basis of accounting should include a statement that indicates the basis of accounting used or should refer to the note to the financial statements giving that information. The opinion should 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," which are equivalent terms. Appendix 1 to this ISA gives examples of auditor's reports on financial statements prepared in accordance with another comprehensive basis of accounting.
11. The auditor would consider whether the title of, or a note to, the financial statements makes it clear to the reader that such statements are not prepared in accordance with International ~~Accounting—Financial Reporting~~ Standards or ~~national standards~~ generally accepted accounting principles promulgated by a recognized standards setter. For example, a tax basis financial statement might be entitled "Statement of Income and Expenses—Income Tax Basis." **If the financial statements prepared on another comprehensive basis are not suitably titled or the basis of accounting is not adequately disclosed, the auditor should issue an appropriately modified report.**

Reports on a Component of Financial Statements

12. The auditor may be requested to express an opinion on one or more components of financial statements, for example, ~~an individual~~ a single financial statement such as a balance sheet, accounts receivable, inventory, an employee's bonus calculation or a provision for income taxes. The component might be prepared to meet the financial information needs of specifically identified users and have a limited distribution, or may be intended to meet the information needs of a wide range of users and, therefore, prepared in accordance with the relevant requirements of an applicable financial reporting framework. This type of engagement may be undertaken as a separate engagement or in conjunction with an audit of the entity's financial statements (see Other Reporting Responsibilities in ISA 700, "The Independent Auditor's Report on General Purpose Financial Statements"). However, this type of engagement does not result in a report on the financial statements taken as a whole and, accordingly, the auditor would express an opinion only as to whether the component audited is prepared, in all material respects, in accordance with the identified basis of accounting*.
13. 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

* *Note – The illustrative report in ISA 800 for a schedule of accounts receivable uses a "true and fair view/presents fairly" opinion. Thus, ISA 800 allows the same wording of the audit opinion on a component as is used in ISA 700.*

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.**

14. **The auditor should consider the concept of materiality in relation to the component of financial statements being reported upon.** For example, a particular account balance provides a smaller base against which to measure materiality compared with the financial statements taken as a whole. Consequently, the auditor's examination will ordinarily be more extensive than if the same component were to be audited in connection with a report on the entire financial statements.

~~15. To avoid giving the user the impression that the report relates to the entire financial statements, the auditor would advise the client that the auditor's report on a component of financial statements is not to accompany the financial statements of the entity.~~

- ~~16~~15. The auditor's report on a component of financial statements should include a statement that indicates the ~~basis of accounting~~**applicable financial reporting framework** in accordance with which the component is presented or refers to an agreement that specifies the basis of accounting used. The opinion should state whether the component is prepared, in all material respects, in accordance with the applicable financial reporting framework or identified basis of accounting. Appendix 2 to this ISA gives examples of audit reports on components of financial statements.

- ~~17~~16. When an adverse opinion or disclaimer of opinion on the entire financial statements has been expressed, the auditor should report on components of the financial statements only if those components are not so extensive as to constitute a major portion of the financial statements. To do otherwise may overshadow the report on the entire financial statements.

[Paragraphs ~~12~~18 – 25 unchanged, but would be renumbered as paragraphs 17 – 24]

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