

The Auditor's Report on Financial Statements

Proposed revisions to ISA 200

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

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. It also describes management's responsibility for the preparation and fair presentation of the financial statements and for identifying the financial reporting framework to be used in preparing the financial statements, referred to in the ISAs as the "applicable financial reporting framework".

Objective of an Audit

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 a financial reporting framework.**
 - ~~3. The term "financial statements" refers to a presentation of financial data, including 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 the purposes of the ISAs, the term "financial statements" encompasses a single financial statement and related explanatory notes, for example, a balance sheet, income statement, cash flow statement or statement of revenues and expenses. It also encompasses a set of financial statements.~~
 - ~~4. The requirements of the financial reporting framework determine the form and content of the financial statements. The financial reporting framework also determines the single financial statements that comprise a complete set. For example, International Financial Reporting Standards state that a complete set of financial statements includes a balance sheet, an income statement, a statement of changes in equity, a cash flow statement and a summary of significant accounting policies and other explanatory notes.~~
 - ~~5.~~
- (Note to IAASB – the above 2 paragraphs have been moved to the section on Responsibility for Financial Statements.)

General Principles of an Audit

ETHICAL REQUIREMENTS

- ~~63.~~ **The auditor should comply with the relevant ethical requirements relating to audit engagements, which ordinarily comprise Parts A and B of the "Code of Ethics for**

Professional Accountants” issued by the International Federation of Accountants together with applicable national requirements where these are more restrictive.

4. [ISA 220, “Quality Control for Audits and Reviews of Historical Financial Information”](#) describes the fundamental principles of professional ethics established by Parts A and B of the IFAC Code and sets out the engagement partner’s responsibilities with respect to ethical requirements. Although ISA 220 is directed towards the engagement partner and the engagement team, it recognizes that the engagement team relies on a firm’s systems in meeting its responsibilities with respect to quality control procedures applicable to the individual audit engagement. Accordingly, ~~In addition, under International Standard on Quality Control 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, Other Assurance and Related Services Engagements”, requires the firm to establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. (ISQC-1), a firm of professional accountants has an obligation to establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and applicable regulatory and legal requirements, and that the auditor’s reports issued by the firm or engagement partners are appropriate in the circumstances.~~

CONDUCT OF AN AUDIT

- [75.](#) **The auditor should conduct the audit in accordance with ISAs.**
- [86.](#) ISAs contain basic principles and essential procedures together with related guidance in the form of explanatory and other material, including appendices. The basic principles and essential procedures are to be understood and applied in the context of explanatory and other material that provide guidance for their application. The text of a whole Standard is considered in order to understand and apply the basic principles and essential procedures.
- [97.](#) In conducting an audit in accordance with ISAs, the auditor is also aware of and considers IAPSs applicable to the audit engagement. IAPSs provide interpretive guidance and practical assistance to auditors in implementing ISAs. An auditor who does not apply the guidance included in a relevant IAPS needs to be prepared to explain how the basic principles and essential procedures in the Standard addressed by the IAPS have been complied with.
- [108.](#) The auditor may also conduct the audit in accordance with both ISAs and national auditing standards applicable in a particular jurisdiction.

SCOPE OF AN AUDIT

- [119.](#) The term “scope of an audit” refers to the audit procedures deemed appropriate in the circumstances, in the auditor’s judgment, to achieve the objective of the audit.
- [1210.](#) **In determining the audit procedures to be performed in conducting an audit in accordance with ISAs, the auditor should comply with each of the ISAs relevant to the audit.**
- [131.](#) Auditors may have a number of professional and legal requirements with which they must comply, in addition to the ISAs. The ISAs do not override the local laws and regulations that

govern an audit of financial statements. In the event that those laws and regulations differ from the ISAs, an audit conducted in accordance with the local laws and regulations will not automatically comply with ISAs.

142. When the auditor is conducting the audit in accordance with auditing standards of a particular jurisdiction as well as ISAs, in addition to complying with ISAs the auditor also performs any additional audit procedures necessary to comply with the relevant standards of that jurisdiction.
153. **The auditor should not represent compliance with ISAs unless the auditor has complied fully with all of the ISAs relevant to the audit.**

PROFESSIONAL SKEPTICISM

164. **The auditor should plan and perform an audit with an attitude of professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.**
15. An attitude of professional skepticism means the auditor makes a critical assessment, with a questioning mind, of the validity of audit evidence obtained and is alert to audit evidence that contradicts or brings into question the reliability of documents or management representations. For example, an attitude of professional skepticism is necessary throughout the audit process for the auditor to reduce the risk of overlooking suspicious circumstances, of over generalizing when drawing conclusions from audit observations, and of using faulty assumptions in determining the nature, timing and extent of the audit procedures and evaluating the results thereof. In planning and performing an audit, the auditor neither assumes that management is dishonest nor assumes unquestioned honesty. Accordingly, representations from management are not a substitute for obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the opinion on the financial statements.

REASONABLE ASSURANCE

[Unchanged text approved as part of Audit Risk revisions and, in the case of the last sentence of paragraph 20, as part of previous IAASB discussions.]

AUDIT RISK AND MATERIALITY

[Unchanged text approved as part of Audit Risk revisions.]

Responsibility for the Financial Statements

3332. While the auditor is responsible for forming and expressing an opinion on the financial statements, the responsibility for the preparation preparing and presenting fair presentation of the financial statements in accordance with the applicable financial reporting framework is that of the management⁷ of the entity, with oversight from those charged with

⁷ The term management has been used in this ISA to describe those responsible for the preparation and presentation of the financial statements. Other terms may be appropriate depending on the legal framework in the particular jurisdiction.

governance⁸. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

(Note to IAASB: changes in shading have been made to conform wording to the new ISA 200 issued as part of the Audit Risk project.)

33. The term “financial statements” refers to a presentation of financial data, including 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 the purposes of the ISAs, the term “financial statements” encompasses~~ The term can refer to a set of financial statements, but it can also refer to a single financial statement, and related explanatory notes, for example, a balance sheet, ~~income statements, cash flow statement,~~ or a statement of revenues and expenses, and related explanatory notes. ~~It also encompasses a set of financial statements.~~

(Note to IAASB: in October, above two paragraphs appeared as paragraphs 3 and 4)

34. Management’s responsibility with respect to the financial statements includes identifying the “applicable financial reporting framework”. ~~It also~~ Management’s responsibility includes:

- ~~(a) Identifying the financial reporting framework to be used in preparing the financial statements;~~
- ~~(ab) Designing and implementing~~ Maintaining internal control ~~over financial reporting to prevent, or detect and correct, relevant to the preparation of financial statements that are free of material~~ misstatements, whether due to fraud and error;
- ~~(be)~~ Selecting and applying appropriate accounting policies that are consistent with the applicable financial reporting framework ~~and appropriate in the circumstances;~~ and
- ~~(cd)~~ Making ~~necessary~~ accounting estimates that are reasonable in the circumstances, ~~including the significant assumptions on which those estimates are based.~~

The audit of the financial statements does not relieve management of its responsibility.

Applicable Financial Reporting Framework

345. The financial reporting framework used by management to prepare the financial statements will depend on the ~~users~~ nature of the entity, for example, whether it is a business enterprise or a not-for-profit organization. It will also depend on the objective of the financial statements. ~~Management may prepare more than one set of financial statements using different financial reporting frameworks in order to meet different objectives.~~

36. In some cases, the objective of the financial statements will be ~~intended~~ to meet ~~the common information needs of a wide range of users; in other, they will be intended to meet the financial information~~ needs of specifically identified users. Examples of financial reporting frameworks that address the needs of specifically identified users are: a tax basis of accounting for a set of financial statements that accompany an entity’s tax return; the

⁸ 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.

financial reporting provisions of a government regulatory agency for a set of financial statements prepared for regulatory purposes; or a financial reporting framework established by the provisions of an agreement specifying the financial statements to be prepared.

~~34-357.~~ Many users of financial statements are not in a position to demand reports 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 all a wide range of users. Financial statements prepared that are intended to meet the common information needs of that wide range of users are referred to as “general purpose financial statements”. ~~Acceptable financial reporting frameworks for general purpose financial statements~~

38. Management may prepare more than one set of financial statements using different financial reporting frameworks in order to meet the information needs of different users.

~~369.~~ Legislative and regulatory requirements in a particular jurisdiction often identify the applicable financial reporting framework to be used for general purpose financial statements in that jurisdiction. Financial reporting frameworks established by international or national standards setting organizations are often specified in such legislative and regulatory requirements. ~~Such~~ The following financial reporting frameworks are presumed to be acceptable for general purpose financial statements provided the organizations that establish these frameworks are authorized to promulgate standards using an established process involving deliberation and exposure of proposals for comment to a wide range of stakeholders of profit-oriented entities. Examples of such financial reporting frameworks include:

(a) International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board;

(b) International Public Sector Accounting Standards (IPSAS) promulgated by the International Federation of Accountants – Public Sector Committee;

~~(b)~~ Generally accepted accounting principles promulgated by a recognized standards setter ~~Established financial reporting standards~~ in a particular jurisdiction;

~~(e) Other financial reporting frameworks provided they are suitable and clearly described in the financial statements.~~

40. In some jurisdictions, legislative and regulatory requirements also supplement the identified applicable financial reporting framework with additional requirements relating to the preparation and presentation of financial statements. In these jurisdictions, the applicable financial reporting framework encompasses both the identified financial reporting framework and such additional requirements.

41. The requirements of the financial reporting framework determine the form and content of the financial statements and what constitutes a complete set of financial statements. The financial reporting framework also determines the single financial statements that comprise a complete set. For certain financial reporting frameworks, a single financial statement such as a cash flow statement and the related explanatory notes constitutes a complete set of financial statements. For example, IPSAS state that the primary financial statement is the cash flow statement when the cash basis of accounting underlies the preparation of the

financial statements.⁹ For example, Financial statements prepared by reference to International Financial Reporting Standards (IFRS), on the other hand, are intended to provide information about the financial position, performance and cash flows of an entity. A state that a complete set of financial statements under IFRS includes a balance sheet, an income statement, a statement of changes in equity, a cash flow statement and a summary of significant accounting policies and other explanatory notes.

~~37. ISA 700, "The Auditor's Report on Financial Statements" addresses the auditor's report on a complete set of general purpose financial statements prepared in accordance with one of the above financial reporting frameworks. ISA 700, "The Auditor's Report on Financial Statements" also addresses the auditor's report on a complete set of general purpose financial statements in accordance with a financial reporting framework established for other types of entities. For example, International Public Sector Accounting Standards provide information on financial reporting frameworks acceptable to entities operating in the public sector.~~

~~38. A complete set of financial statements may also be prepared in accordance with a financial reporting framework that is designed for a special purpose to meet other objectives of users. Alternatively, a component of a complete set of financial statements such as a balance sheet and related notes may also be prepared. The needs of the identified users will determine the applicable financial reporting framework in such circumstances. ISA 800 "The Auditor's Report on Special Purpose Audit Engagements" addresses the auditor's report on such financial statements.~~

International Financial Reporting Standards

~~39. Paragraphs 10 to 19 of International Accounting Standard (IAS) 1 (Revised 1997), "Presentation of Financial Statements,"⁸ set out the requirements to be met before an entity's financial statements can be regarded as having been prepared in accordance with International Financial Reporting Standards (also referred to as International Accounting Standards). In particular, paragraph 11 indicates that "financial statements should not be described as complying with International Accounting Standards unless they comply with all the requirements of each applicable standard and each applicable interpretation of the Standing Interpretations Committee."⁹~~

Established financial reporting standards in a particular jurisdiction

~~40. Established financial reporting standards in a particular jurisdiction refer to standards issued or adopted by national organizations authorized, for example, by legislation, to promulgate authoritative standards in their jurisdiction through an established process involving deliberation and broad consultation.~~

Other financial reporting frameworks provided they are suitable and clearly described in the financial statements—41

~~42. When an entity is registered or operating in a jurisdiction where there are no legislative and regulatory requirements that identify an applicable financial reporting framework for general~~

⁹ See paragraph 9, Preface to International Public Sector Accounting Standards

⁸ On May 15, 2002, the International Accounting Standards Board issued an exposure draft of improvements to IASs, including an exposure draft of a proposed revised IAS 1. In that exposure draft, the relevant paragraphs are paragraphs 10-17, with paragraph 11 requiring compliance with all applicable standards.

⁹ The Standing Interpretations Committee was renamed the "International Financial Reporting Interpretations Committee" subsequent to the issue of IAS 1 (Revised 1997).

purpose financial statements, the entity identifies an applicable financial reporting framework that is suitable for the nature of the entity and the objective of the financial statements and that is clearly described in the financial statements. The entity's choice is governed by local practice, industry practice, user needs, or other factors. Practice in such jurisdictions is often to use a financial reporting framework that is recognized as suitable in another jurisdiction because it is established by an organization that meets the criteria described in paragraph 39. Alternatively, there may be established accounting conventions in a particular jurisdiction that are generally recognized as the applicable financial reporting framework for entities operating in that jurisdiction. When such a financial reporting framework is used, it is important for the auditor to consider whether the financial reporting framework is in fact suitable and whether it is clearly described in the financial statements. Other financial reporting frameworks may be acceptable in jurisdictions that do not require the use of standards such as International Financial Reporting Standards or that do not have established financial reporting standards provided they are suitable for the purpose of providing information about financial position, financial performance and cash flows; and clearly described in the financial statements. 42. ~~Such other a~~ financial reporting frameworks ~~are~~ is considered to be suitable when ~~they are~~ it is:

- (a) 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 ~~that provide information about financial position, performance and cash flows,~~ relevance is assessed in terms of the information necessary to meet the common information needs of a wide range of users ~~_in that they are designed to result in financial statements that will help users make in making economic decisions. These needs are ordinarily met~~ by presenting fairly the financial position, financial performance and cash flows of ~~an the entity~~ business enterprise.)
 - (b) Complete in that all transactions and events, account balances and disclosures that could affect the fair presentation of the financial statements ~~financial position, financial performance and cash flows of the financial statements~~ are not omitted.
 - (c) Reliable in that ~~they it~~ it:
 - (i) reflects the economic substance of events and transactions and not merely their legal form; and
 - (ii) results in reasonably consistent evaluation, measurement, presentation and disclosure, when used in similar circumstances;
 - (e) Neutral in that ~~they it is are~~ free from bias; and
 - (f) Understandable in that ~~they it is are~~ clear and comprehensive and not subject to significantly different interpretation.
43. A conglomeration of accounting conventions devised to suit individual preferences is not a suitable financial reporting framework for financial statements intended to because it is not relevant to address the common information needs of a wide range of users.
44. The description of the financial reporting framework in the financial statements includes information about the basis of presentation of the financial statements and the specific accounting policies selected and applied for significant transactions and other significant events.

Expressing an opinion on the financial statements

45. When the auditor is expressing an opinion on a complete set of general purpose financial statements, as defined by the applicable financial reporting framework, the auditor refers to ISA 700, “The Auditor’s Report on Financial Statements”, for guidance on the matters the auditor considers in forming an opinion on such financial statements and on the form and content of the auditor’s report.
46. The auditor refers to ISA 800, “The Independent Auditor’s Report on Special Purpose Audit Engagements”, when expressing an opinion on:
- A complete set of financial statements prepared in accordance with a financial reporting framework that is designed for a special purpose, referred to as an other comprehensive basis of accounting;
 - A component of a complete set of financial statements, such as a single financial statement, specified accounts, elements of accounts, or items in a financial statement;
 - Compliance with contractual agreements; and
 - Summarized financial statements.
47. In addition to addressing reporting considerations, ISA 800 also addresses other matters the auditor considers in such engagements related to, for example, engagement acceptance and the conduct of the audit.

Identification of Applicable Financial Reporting Framework for General Purpose Financial Statements

45. ~~The term “applicable financial reporting framework” refers to the financial reporting framework used by management to prepare the entity’s financial statements. An entity’s legislative and regulatory obligations often determine the applicable financial reporting framework.~~
46. ~~Legislation in some jurisdictions sometimes requires financial statements to be prepared by reference to a financial reporting framework and additional requirements specified in legislation. In these jurisdictions, the applicable financial reporting framework encompasses both the financial reporting framework and such additional requirements.~~
47. ~~When the entity is registered or operating in a jurisdiction where there are no such legislative and regulatory obligations, the entity identifies an applicable framework. The entity’s choice will be governed by local practice, industry practice, user needs, or other factors. For example, the entity’s competitors may apply International Financial Reporting Standards and the entity may determine that International Financial Reporting Standards are also appropriate for its financial reporting requirements.~~