

~~INTERNATIONAL STANDARD ON AUDITING 800~~~~THE AUDITOR'S REPORT ON
SPECIAL PURPOSE AUDIT ENGAGEMENTS~~~~(This Standard is effective)~~**PROPOSED****INTERNATIONAL STANDARD ON AUDITING 800 (REVISED)****THE INDEPENDENT'S AUDITOR'S REPORT ON
HISTORICAL FINANCIAL INFORMATION OTHER THAN A COMPLETE
SET OF GENERAL PURPOSE FINANCIAL STATEMENTS**(Effective for reports issued on or after [insert date])**CONTENTS**

	Paragraph
Introduction	1-29
<u>Definitions</u>	<u>10</u>
<u>Reports on Other Historical Financial Information Other than Summarized Financial Information</u>	
<u>General Considerations</u>	<u>311-814</u>
<u>Applicable Financial Reporting Framework</u>	<u>15-23</u>
<u>The Auditor's Report on Other Historical Financial Information</u>	<u>24-37</u>
<u>Reports on Financial Statements Prepared in Accordance with a Comprehensive Basis of Accounting Other than International Accounting Standards or National Standards</u>	<u>9-11</u>
<u>Reports on a Component of Financial Statements</u>	<u>12-17</u>
<u>Reports on Compliance with Contractual Agreements</u>	<u>18-20</u>
<u>Reports on Summarized Financial Statements</u>	<u>21-25</u>
<u>Appendix 1: Examples of Reports on Financial Statements Prepared in Accordance with a Comprehensive Basis of Accounting Other than International Accounting Standards or National Standards</u>	
<u>Appendix 2: Examples of Reports on Components of Financial Statements</u>	
<u>Appendix 3: Examples of Reports on Compliance</u>	
<u>Appendix 4: Examples of Reports on Summarized Financial Statements</u>	

International Standard on Auditing (ISA) 800 (Revised), "The Auditor's Report on
Special Purpose Audit EngagementsThe Auditor's Report on Historical Financial
Information Other Than a Complete Set of General Purpose Financial Statements"
should be read in the context of the "Preface to the International Standards on Quality
Control, Auditing, Assurance and Related Services," which sets out the application
and authority of ISAs.

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:
 - Financial statements prepared in accordance with a comprehensive basis of accounting other than International Accounting Standards or national standards;
 - Specified accounts, elements of accounts, or items in a financial statement (hereafter referred to as reports on a component of financial statements);
 - Compliance with contractual agreements; and
 - Summarized financial statements.

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

The purpose of this International Standard on Auditing (ISA) is to establish standards and guidance on the independent auditor's report issued as a result of an audit of historical financial information other than a complete set of general purpose financial statements (refer to hereinafter as "other historical financial information"). The independent auditor's report on a complete set of general purpose financial statements is dealt with in ISA 700 (Revised), "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements."

2. This ISA deals with the auditor's report only. Standards and guidance on the performance of the audit of other historical financial information are dealt with in the *Code of Ethics for Professional Accountants* issued by the International Federation of Accounts and the other ISAs, with the exception of ISA 700.
3. This ISA does not deal with auditor's reports on the financial information of a component that is to be included in group financial statements.
4. Other historical financial information includes financial information prepared in accordance with a financial reporting framework designed for a general purpose (other than a complete set of general purpose financial statements, which are dealt with in ISA 700) or a financial reporting framework designed for a special purpose, and summarized financial information.
5. Examples of other historical financial information prepared in accordance with a financial reporting framework designed for a special purpose (hereinafter referred to as "other historical financial information prepared for a special purpose") include financial information prepared in accordance with:
 - A tax basis of accounting;
 - The cash receipts and disbursements basis of accounting;
 - The financial reporting provisions of a government regulatory agency; and
 - The provisions of a contractual agreement, such as bond indentures or loan agreements.
6. Other historical financial information can be presented as:
 - (a) A complete set of financial statements prepared in accordance with a financial reporting framework designed for a special purpose; or
 - (b) A single financial statement, or specific elements, accounts or items of a financial statement, prepared in accordance with a financial reporting framework designed for a general purpose or a financial reporting framework designed for a special purpose.
7. Examples of a single financial statement include the following:
 - Balance sheet.
 - Statement of income or statement of operations.
 - Statement of retained earnings.

- Statement of cash flows.
 - Statement of changes in owners' equity.
 - Statement of assets and liabilities that does not include owners' equity accounts.
 - Statement of revenue and expenses.
 - Summary of operations.
 - Statement of operations by product lines.
 - Statement of cash receipts and disbursements.
8. Examples of specific elements, accounts or items in a financial statement include the following:
- Accounts receivable, inventory, provision for doubtful debts, the liability for accrued benefits of a private pension plan, the recorded value of identified intangible assets, or the liability for "incurred but not reported" claims in an insurance portfolio.
 - A schedule of externally managed assets and income of a private pension plan.
 - A schedule of net tangible assets.
 - A schedule of disbursements in relation to a lease property.
 - A schedule of profit participation or employee bonuses.
 - A schedule of share price movements and of average share price.
9. An engagement to express an opinion on compliance with the provisions of a contractual agreement that do not deal with the preparation of historical financial information is performed in accordance with International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements Other Than the Audit or Review of Historical Financial Information."
- ~~2. The auditor should review and assess the conclusions drawn from the audit evidence obtained during the special purpose audit engagement as the basis for an expression of opinion. The report should contain a clear written expression of opinion. [Now paragraphs 24 and 26.]~~

Definitions

10. The following terms have the meanings attributed below:
- (a) "Applicable financial reporting framework" means a financial reporting framework adopted by the responsible party in preparing the other historical financial information. Where legal and regulatory requirements supplement the applicable financial reporting framework with additional requirements relating to the preparation and presentation of the other historical financial information, the applicable financial reporting framework, for the purposes of applying the ISAs, encompasses both the financial reporting framework and such additional requirements, provided they do not conflict with the applicable financial reporting framework.
 - (b) "Engagement circumstances" means the terms of the engagement, the characteristics of the other historical financial information, the applicable financial reporting framework, the needs of the intended users, relevant characteristics of the responsible party and its environment, and other matters, for example events, transactions, conditions and practices, that may have a significant effect on the engagement.
 - (c) "Financial reporting framework" means a set of criteria applied in the preparation of other historical financial information;
 - (d) "Financial reporting framework designed for a special purpose" means a financial reporting framework that is designed to meet the financial information needs of specific intended users.
 - (e) "Intended user" means the person, persons or class of persons for whom the auditor prepares the report on the other historical financial information. The responsible party can be one of the intended users, but not the only one.

- (f) “Responsible party” means the person or persons who are responsible for the other historical financial information. The responsible party may or may not be the party who engages the auditor.

Reports on Other Historical Financial Information Other Than Summarized Financial Information¹

General Considerations

~~3. The nature, timing and extent of work to be performed in a special purpose audit engagement will vary with the circumstances. **Before undertaking a special purpose audit engagement, the auditor should ensure there is agreement with the client as to the exact nature of the engagement and the form and content of the report to be issued.** [ISA 210, “Terms of Audit Engagements.”]~~

11. An engagement to report on other historical financial information may be undertaken as a separate engagement or in conjunction with an audit of the entity’s complete set of general purpose financial statements. However, this type of engagement does not result in a report on those financial statements. Where the client intends to publish the other historical financial information together with the complete set of general purpose financial statements, the auditor advises the client that the complete set of general purpose financial statements and its auditor’s report should be clearly separated from the other historical financial information and its auditor’s report. For example, other historical financial information prepared in accordance with a tax basis of accounting may be published with an entity’s complete set of general purpose financial statements.
12. **When deciding whether to accept an engagement to express an audit opinion on a single financial statement, or a specific element, account or item of a financial statement, the auditor should consider whether the auditor will be able to obtain sufficient appropriate audit evidence to support the opinion, taking account of the inter-relationship that may exist between various elements, accounts or items within a financial statement or between interrelated financial statements.** For example, in an audit of revenue, the auditor considers the inter-relationship between revenue, receivables and inventory. This will include consideration of the pervasive effect of the internal control environment, particularly with respect to the completeness assertion.
13. **When the auditor is engaged to express an opinion on an element, account or item in a financial statement and a modified auditor’s report has been issued on that financial statement, the auditor should consider the effect that this may have on the auditor’s report on the element, account or item constituting the other historical financial information.**
- (a) When an adverse opinion or a disclaimer of opinion has been expressed on a financial statement, the auditor reports on the other historical financial information only if it is not so extensive as to constitute a major portion of that financial statement. In addition, the auditor makes the intended users aware of this fact in an emphasis of matter paragraph in the auditor’s report on the other historical financial information.
- (b) Where a qualified opinion on a financial statement, or an emphasis of matter paragraph in the auditor’s report on that financial statement, affects the purpose for which the other historical financial information has been prepared, the auditor makes the intended users aware of this fact in an emphasis of matter paragraph in the auditor’s report on the other historical financial information.
14. **The auditor should consider materiality in relation to the other historical financial information.** For example, a particular account balance may often provide a smaller base against which to measure materiality compared with the entire financial statement. Consequently, the auditor’s examination may often be more extensive than if the same financial information were to be examined in connection with a report on the entire financial statement. Where the auditor is expressing an opinion on a single financial statement, as opposed to a complete set of financial statements, the auditor also considers the

¹ Standards and guidance on reports on summarized financial information are dealt with in paragraphs ... to ...

effect on materiality, since the materiality appropriate for a complete set of financial statements may not be appropriate for a single financial statement.

Applicable Financial Reporting Framework

15. The auditor's report on other historical financial information should identify the financial reporting framework and, in the case of other historical financial information prepared for a special purpose, the purpose for which the financial information has been prepared and the intended users; or should refer to a note in the other historical financial information that contains this information.

- 4.16. In planning the audit work, the auditor will need a clear understanding of the purpose for which the information being reported on is to be used, and who is likely to use it. To avoid the possibility of the auditor's report being used for purposes for which it was not intended, the auditor may wish to indicate in the report the purpose for which the report is prepared and any restrictions on its distribution and use. [Text below and paragraphs 15 and 35-37.]

The auditor obtains an understanding of the applicable financial reporting framework. In the case of other historical financial information prepared for a special purpose, the auditor also obtains an understanding of the purpose for which the financial information has been prepared and of the intended users. The auditor confirms this understanding in writing, preferably in an engagement letter.

17. ISA 200 (Revised), "Objective and General Principles Governing an Audit of Financial Statements" requires the auditor to determine whether the applicable financial reporting framework is acceptable. In this regard, the auditor considers the following:

- (a) In the case of other historical financial information prepared for a special purpose, the steps taken by the responsible party to determine that the applicable financial reporting framework is appropriate to the needs of the intended users.
- (b) In the case of other historical financial information prepared in accordance with the provisions of a contractual agreement, whether any significant interpretations of the agreement have been made by the responsible party in preparing the financial information. An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the other historical financial information.
- (c) Whether the applicable financial reporting framework exhibits the following characteristics of suitable criteria:
 - (i) Relevance: relevant criteria contribute to conclusions that assist decision-making by the intended users.
 - (ii) Completeness: criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the engagement circumstances are not omitted. Complete criteria include, where relevant, benchmarks for presentation and disclosure.
 - (iii) Reliability: reliable criteria allow reasonably consistent evaluation or measurement of the other historical financial information including, where relevant, presentation and disclosure, when used in similar circumstances by similarly qualified practitioners.
 - (iv) Neutrality: neutral criteria contribute to conclusions that are free from bias.
 - (v) Understandability: understandable criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.

- (d) Whether the financial reporting framework is acceptable in the engagement circumstances.

18. Depending on the engagement circumstances, the set of criteria constituting the applicable financial reporting framework may encompass not only the accounting standards promulgated by means of law or regulation or by recognized standards setting bodies, or the provisions of a contractual agreement, but may also encompass:

- The impact of the legal environment, including statutes, regulations and court decisions in relation to accounting matters;
 - Published views on emerging accounting issues and accounting interpretations of varying authority issued by standard setting, professional or regulatory bodies;
 - Industry practices widely recognized and prevalent; and
 - Accounting literature.
19. The relative importance of each characteristic of suitable criteria to a particular engagement is a matter of professional judgment. Suitable criteria are context-sensitive, i.e. to the engagement circumstances. For example, a financial reporting framework applied in the preparation of other historical financial information prepared for a special purpose may not be neutral, but still acceptable in the engagement circumstances. In this case, the auditor determines that the financial reporting framework does not lead to conclusions that are unduly biased.
20. Criteria (financial reporting provisions) established by a government regulatory agency for the preparation of other historical financial information that meets the needs of that agency are presumed to be acceptable for that purpose.
21. As discussed in ISA 200 (Revised), paragraph 41, financial reporting frameworks established by organizations that are authorized or recognized to promulgate standards to be used by certain types of entities are presumed to be acceptable for general purpose financial statements prepared by such entities, provided the organizations follow an established process involving deliberation and exposure of proposals for comment to a wide range of stakeholders. When these frameworks are adopted for the preparation of other historical financial information prepared for a special purpose, the auditor considers the acceptability thereof in the light of the engagement circumstances.
22. Partial application of either a financial reporting framework designed for a general purpose or an established financial reporting framework designed for a special purpose does not constitute compliance with that financial reporting framework. Consequently, there is a presumption that the partial application of either a financial reporting framework designed for a general purpose or an established financial reporting framework designed for a special purpose does not constitute an acceptable financial reporting framework. However, there may be circumstances where the special needs of specific intended users may justify the use of such a financial reporting framework. Hence, the auditor considers whether the reasons for adopting such a financial reporting framework are acceptable in the engagement circumstances. For example, the auditor may consider a single financial statement prepared in accordance with the relevant requirements of a financial reporting framework designed for a general purpose to be acceptable in the engagement circumstances.
23. As discussed in ISA 210, "Terms of Audit Engagements," paragraph 13, without an acceptable financial reporting framework, the responsible party does not have an appropriate basis for preparing the other historical financial information and the auditor does not have suitable criteria for evaluating the financial information.

The Auditor's Report on Other Historical Financial Information

24. **The auditor's report should contain a clear expression of the auditor's opinion on the other historical financial information.**
25. As discussed in ISA 200 (Revised), the objective of an audit of other historical financial information is to enable the auditor to express an opinion whether the financial information is prepared, in all material respects, in accordance with the applicable financial reporting framework. The terms used to express the audit opinion ordinarily are "give a true and fair view" or "are presented fairly, in all material respects," (which are equivalent terms) in accordance with the applicable financial reporting framework. However, different terms, such as "prepared, in all material respects," in accordance with the applicable financial reporting framework, may be required by national law or regulation, by contractual agreement, or may be established practice in a particular jurisdiction. The auditor considers whether the terms used to express the audit opinion properly convey that reasonable assurance, as described in ISA 200, paragraphs 8-11, has been obtained.

*Forming an Opinion on the Other Historical Financial Information***26. The auditor should evaluate the conclusions drawn from the audit evidence obtained as the basis for an opinion on the other historical financial information.**

27. When forming an opinion on the other historical financial information, the auditor evaluates whether, based on the audit evidence obtained, there is reasonable assurance that the financial information is free from material misstatement. This involves concluding whether sufficient appropriate audit evidence has been obtained to reduce to an acceptably low level the risk of material misstatement in the other historical financial information² and evaluating the effects of uncorrected misstatements identified.³

28. In forming an opinion on the other historical financial information, the auditor evaluates whether the financial information has been prepared in accordance with the specific requirements of the applicable financial reporting framework.

29. In particular, the auditor considers whether:

- (a) The accounting policies selected and applied are appropriate in the engagement circumstances;
- (b) The significant accounting estimates, if any, made by the responsible party are reasonable in the engagement circumstances;
- (c) The other historical financial information discloses the applicable financial reporting framework, the significant accounting policies applied and the responsible party's significant interpretations, if any, of regulatory, legal or contractual agreement requirements. However, in jurisdictions where the applicable financial reporting framework is legally codified, a reference to the applicable financial reporting framework may suffice;
- (d) The other historical financial information provides sufficient disclosures in the engagement circumstances to enable the intended users to understand the effect of material transactions and events on the financial information;
- (e) The terminology in, including the title of, the other historical financial information is appropriate in the engagement circumstances; and
- (f) The other historical financial information presented is relevant, reliable, comparable and understandable in the engagement circumstances.

30. The evaluation of whether the other historical financial information has been prepared in accordance with the specific requirements of the applicable financial reporting framework is a matter of professional judgment. The auditor reflects on whether the other historical financial information, after any adjustments made by the responsible party as a result of the audit process, may be misleading in the engagement circumstances.

31. If the auditor encounters circumstances that leads the auditor to conclude that the other historical financial information is misleading, the auditor discusses the matter with the responsible party and considers the effect on the auditor's report, which will depend on how the responsible party addresses the matter in the other historical financial information and how the applicable financial reporting framework deals with these circumstances (see ISA 701, "Modifications to the Independent Auditor's Report").

Elements of the Auditor's Report

5-32. The auditor's report on a special purpose audit engagement, except for a report on summarized financial statements, should include the following basic elements, ordinarily in the following layout:

² See ISA 330, "The Auditor's Procedures in Response to Assessed Risks."

³ See ISA 320, "Audit Materiality."

- (a) **Title;¹⁴**
- (b) **Addressee;**
- (c) **~~Opening or i~~Introductory paragraph that**
 - ~~(i) Identification of identifies the other historical financial information audited and, in the case of other historical financial information prepared for a special purpose, the purpose for which the financial information has been prepared and the intended users; or that refers to a note in the financial information containing this information; and. The introductory paragraph should state that the other historical financial information has been audited.~~
 - ~~(ii) A statement of the responsibility of the entity's management and the responsibility of the auditor;~~
- (d) **Identification of the responsible party and a description of the responsible party's responsibility for:**
 - (i) In the case of other historical financial information prepared for a special purpose, determining that the applicable financial reporting framework is acceptable in the light of the other engagement circumstances, including the needs of the intended users;**
 - (ii) Preparing and presenting the other historical financial information in accordance with the applicable financial reporting framework;**
 - (iii) Designing, implementing and maintaining internal control relevant to the preparation and presentation of the other historical financial information that is free from material misstatement, whether due to fraud or error;**
 - (iv) Selecting and applying accounting policies that are appropriate in the engagement circumstances; and**
 - (v) Making accounting estimates, if any, that are reasonable in the engagement circumstances.**
- ~~(d) A scope paragraph (describing the nature of an audit)~~
 - ~~(i) The reference to the ISAs applicable to special purpose audit engagements or relevant national standards or practices; and~~
 - ~~(ii) A description of the work the auditor performed;~~
- (e) **A statement that the responsibility of the auditor is to express an opinion on the other historical financial information based on the audit.**
- (f) **A description of the scope of the audit by stating that the audit was conducted in accordance with ISAs applicable in the engagement circumstances, and an explanation that those standards require that the auditor comply with the applicable ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance whether the other historical financial information is free from material misstatement.**
- (g) **A description of the audit, stating that:**

¹⁴ It may be appropriate to use the term "Independent Auditor" in the title to distinguish the auditor's report from reports that might be issued by others, such as officers of the entity, or from the reports of other auditors who may not have to abide by the same ethical requirements as the independent auditor.

⁴ A title indicating the report is the report of an independent auditor, for example "Independent Auditor's Report," affirms that the auditor has met all of the ethical requirements, including that of independence and, therefore, distinguishes the auditor's report from reports issued by others.

- (i) An audit conducted in accordance with ISAs involves performing procedures to obtain audit evidence about the amounts and disclosures in the other historical financial information;
- (ii) The audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the other historical financial information. In making those risk assessments, the auditor considers internal control relevant to the responsible party's preparation and presentation of the other historical financial information as a basis for designing audit procedures that are appropriate in the engagement circumstances, but not for the purpose of expressing an opinion on the effectiveness of the responsible party's internal control; and
- (iii) An audit also includes evaluating the appropriateness of the accounting policies used, the reasonableness of significant accounting estimates, if any, made by management, as well as the overall presentation in the other historical financial information.
- (h) A statement that the auditor believes that the audit evidence that the auditor has obtained is sufficient and appropriate to draw reasonable conclusions on which to base the auditor's opinion.
- ~~(e)~~(i) An ~~Opinion~~ paragraph containing an expression of opinion ~~on whether the other historical financial information has been prepared, in all material respects, in accordance with the applicable financial reporting framework~~;
- ~~(f)~~(j) Date of the auditor's report;
- ~~(g)~~(k) Auditor's ~~address~~ signature; and,
- (l) Auditor's ~~signature~~ address.

A measure of uniformity in the form and content of the auditor's report is desirable because it helps to promote the reader's understanding.

As discussed in paragraph 2, ISA 700 (Revised) does not apply to an audit of other historical financial information. ISA 700 (Revised), paragraphs ...-..., however, contains guidance on the elements of the auditor's report that may be useful in the context of an audit of other historical financial information.

[Note: The task force has agreed that, once finalized, the proposed revised ISA 700 guidance should be reviewed and any guidance that are not applicable or applied differently in the context of an audit on other historical financial information should be clarified in the proposed revised ISA 800.]

33. The auditor should date the report on the other historical financial information no earlier than (a) the date of approval of the financial information, and (b) the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the opinion on the financial information. [Note: This paragraph is in line with the proposed revised ISA 700, paragraph 44. However, the task force prefers the following wording: "The auditor should date the report on the other historical financial information no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence, which includes the responsible party's approval of the financial information, on which to base the opinion on the financial information."]

- 6-34. In the case of other historical financial information to be supplied ~~by an entity~~ to government authorities, trustees, insurers and other entities there may be a prescribed format for the auditor's report. Such prescribed reports may not conform to the requirements of this ISA. For example, the prescribed report may require a certification of fact when an expression of opinion is appropriate, may require an opinion on matters outside the scope of the audit or may omit essential wording. When requested to report in a prescribed format, the auditor should consider the substance and wording of the prescribed report and, when necessary, should make appropriate changes to conform to the requirements of this ISA, either by rewording the form or by attaching a separate report.

~~7. When the information on which the auditor has been requested to report is based on the provisions of an agreement, the auditor needs to consider whether any significant interpretations of the agreement have been made by management in preparing the information. An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the financial information. [Concept dealt with in paragraph 17(b).]~~

~~8. The auditor should consider whether any significant interpretations of an agreement on which the financial information is based are clearly disclosed in the financial information. The auditor may wish to make reference in the auditor's report on the special purpose audit engagement to the note within the financial information that describe such interpretations. [Concept dealt with in paragraph 29(c), but not in bold.]~~

Restriction on Distribution and Use of the Auditor's Report

35. The auditor considers including the following statements in an auditor's report on other historical financial information prepared for a special purpose:

- (a) The other historical financial information may not be suitable for a purpose other than the stated purpose and should only be used by the intended users.
- (b) The other historical financial information should not be distributed to parties other than the intended users, unless the auditor's prior written consent has been obtained.

36. The auditor cannot control the distribution and use of the other historical financial information on which the auditor reports. Although certain entities may be required by a regulator to place the other historical financial information on public record, other entities may inappropriately provide other historical financial information prepared for a special purpose to a broader user group, such as its shareholders, who may use the financial information for a variety of purposes. Broader distribution of other historical financial information prepared for a special purpose does not render it general purpose financial information. However, because of the possible wide distribution and use of such financial information, it is important that the auditor's report clearly communicates to readers the purpose for which it has been prepared and the intended users (see paragraph 32(c)).

37. The auditor may also wish to include commentary in the engagement letter indicating that, should the responsible party distribute the other historical financial information to anyone other than the intended users, the auditor accepts no responsibility for any loss or damage suffered by the addressee or any other reader as a result of using the other historical financial information for any other purpose.

Reports on Financial Statements Prepared in Accordance With a Comprehensive Basis of Accounting Other Than International Accounting Standards or National Standards

~~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. Financial statements may be prepared for a special purpose in accordance with a 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 financial reporting frameworks may include the following:~~

- ~~• That used by an entity to prepare its income tax return.~~
- ~~• The cash receipts and disbursements basis of accounting.~~
- ~~• The financial reporting provisions of a government regulatory agency. [Concept covered in revised Introduction.]~~

~~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 an other comprehensive basis of accounting. *[Covered in paragraphs 15, 25, 32(c) and 32(i).]*

~~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 Standards or national standards. For example, a tax basis financial statement might be entitled "Statement of Income and Expenses—Income Tax Basis." If the financial statements prepared on an other comprehensive basis are not suitably titled or the basis of accounting is not adequately disclosed, the auditor should issue an appropriately modified report.~~ *[Concept covered in paragraphs 29(c), 29(e) and 31, but not in bold.]*

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, accounts receivable, inventory, an employee's bonus calculation or a provision for income taxes. This type of engagement may be undertaken as a separate engagement or in conjunction with an audit of the entity's 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.~~ *[Note: Concept covered in Introduction and paragraph 11.]*

~~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 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.~~ *[Now paragraph 12.]*

~~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. *[Now paragraph 14.]*

~~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.~~ *[Concept covered in paragraph 19; however, revised guidance allows the financial statements and other historical financial information to be published together as long as the financial statements and its auditor's report are clearly separated from the other historical financial information and its auditor's report.]*

~~16. The auditor's report on a component of financial statements should include a statement that indicates the basis of accounting in accordance with which the component is presented or refers to an agreement that specifies the basis. The opinion should state whether the component is prepared, in all material respects, in accordance with the identified basis of accounting.~~ Appendix 2 to this ISA gives examples of audit reports on components of financial statements. *[Covered in paragraphs 15, 25, 32(c) and 32(i).]*

~~17. 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. *[Concept covered in paragraph 13.]*

Reports on Compliance With Contractual Agreements

~~18. The auditor may be requested to report on an entity's compliance with certain aspects of contractual agreements, such as bond indentures or loan agreements. Such agreements ordinarily require the entity to comply with a variety of covenants involving such matters as payments of interest, maintenance of predetermined financial ratios, restriction of dividend payments and the use of the proceeds of sales of property. [Concept covered in revised Introduction]~~

~~19. Engagements to express an opinion as to an entity's compliance with contractual agreements should be undertaken only when the overall aspects of compliance relate to accounting and financial matters within the scope of the auditor's professional competence. However, when there are particular matters forming part of the engagement that are outside the auditor's expertise, the auditor would consider using the work of an expert. [Focus of the revised paragraph was changed to deal with the fact that engagements to report on compliance with the provisions of contractual agreements that do not deal with the preparation of financial information should be performed in accordance with ISAE 3000. See paragraph 9.]~~

~~20. The report should state whether, in the auditor's opinion, the entity has complied with the particular provisions of the agreement. Appendix 3 to this ISA gives examples of auditor's reports on compliance given in a separate report and in a report accompanying financial statements. [Covered in paragraphs 15, 25, 32(c) and 32(i).]~~

Reports on Summarized Financial Statements

[SHADED TEXT HAS NOT YET BEEN REVISED AND WILL NOT BE DISCUSSED AT SEPTEMBER 2004 IAASB MEETING.]

~~21-38.~~ An entity may prepare financial statements summarizing its annual audited financial statements for the purpose of informing user groups interested in the highlights only of the entity's financial position and the results of its operations. **Unless the auditor has expressed an audit opinion on the financial statements from which the summarized financial statements were derived, the auditor should not report on summarized financial statements.**

~~22-39.~~ Summarized financial statements are presented in considerably less detail than annual audited financial statements. Therefore, such financial statements need to clearly indicate the summarized nature of the information and caution the reader that, for a better understanding of an entity's financial position and the results of its operations, summarized financial statements are to be read in conjunction with the entity's most recent audited financial statements which include all disclosures required by the relevant financial reporting framework.

~~23-40.~~ Summarized financial statements need to be appropriately titled to identify the audited financial statements from which they have been derived, for example, "Summarized Financial Information Prepared From the Audited Financial Statements for the Year Ended December 31, 19X1."

~~24-41.~~ Summarized financial statements do not contain all the information required by the financial reporting framework used for the annual audited financial statements. Consequently, wording such as "true and fair" or "present fairly, in all material respects" is not used by the auditor when expressing an opinion on summarized financial statements.

~~25-42.~~ **The auditor's report on summarized financial statements should include the following basic elements ordinarily in the following layout:**

- (a) **Title;²**
- (b) **Addressee;**
- (c) **An identification of the audited financial statements from which the summarized financial statements were derived;**

² See footnote 1.

- (d) A reference to the date of the audit report on the unabridged financial statements and the type of opinion given in that report;
- (e) An opinion as to whether the information in the summarized financial statements is consistent with the audited financial statements from which it was derived. When the auditor has issued a modified opinion on the unabridged financial statements yet is satisfied with the presentation of the summarized financial statements, the auditor's report should state that, although consistent with the unabridged financial statements, the summarized financial statements were derived from financial statements on which a modified auditor's report was issued;
- (f) A statement, or reference to the note within the summarized financial statements, which indicates that for a better understanding of an entity's financial performance and position and of the scope of the audit performed, the summarized financial statements should be read in conjunction with the unabridged financial statements and the auditor's report thereon;
- (g) Date of the report;
- (h) Auditor's address; and
- (i) Auditor's signature.

Appendix 4 to this ISA gives examples of auditor's reports on summarized financial statements.

Public Sector Perspective

1. Some of the engagements considered "special purpose audit engagements" in the private sector are not special purpose in the public sector. For example, reports on financial statements prepared in accordance with a comprehensive basis of accounting other than IASs or national standards is ordinarily the norm, not the exception in the public sector. This has to be noted and guidance provided to the auditor on his or her responsibility to assess whether the accounting policies will result in misleading information. [Concept covered in paragraphs 29 and 21.]

2. A factor that also has to be considered is that public sector auditor's reports are ordinarily public documents and therefore, it is not possible to restrict the report to specific users. [Concept covered in paragraph 36.]

**[SHADED TEXT HAS NOT YET BEEN REVISED AND WILL NOT BE DISCUSSED
AT SEPTEMBER 2004 IAASB MEETING.]**

Appendix 1

Examples of Reports on Financial Statements Prepared in Accordance With a Comprehensive Basis of Accounting Other Than International Accounting Standards or National Standards

A Statement of Cash Receipts and Disbursements

AUDITOR'S REPORT TO

We have audited the accompanying statement of ABC Company's cash receipts and disbursements for the year ended December 31, 19X1.³ This statement is the responsibility of ABC Company's management. Our responsibility is to express an opinion on the accompanying statement based on our audit.

We conducted our audit in accordance with International Standards on Auditing (or refer to relevant national standards or practices). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Company's policy is to prepare the accompanying statement on the cash receipts and disbursements basis. On this basis revenue is recognized when received rather than when earned, and expenses are recognized when paid rather than when incurred.

In our opinion, the accompanying statement gives a true and fair view of (or presents fairly, in all material respects) the revenue collected and expenses paid by the Company during the year ended December 31, 19X1 in accordance with the cash receipts and disbursements basis as described in Note X.

AUDITOR

Date

Address

³ Provide suitable identification, such as by reference to page numbers or by identifying the individual statement.

Financial Statements Prepared on the Entity's Income Tax Basis**AUDITOR'S REPORT TO**

We have audited the accompanying income tax basis financial statements of ABC Company for the year ended December 31, 19X1.⁴ These statements are the responsibility of ABC Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing (or refer to relevant national standards or practices). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of (or present fairly, in all material respects) the financial position of the Company as of December 31, 19X1 and its revenues and expenses for the year then ended, in accordance with the basis of accounting used for income tax purposes as described in Note X.

AUDITOR

Date

Address

⁴ See footnote 3.

Appendix 2

Example of Reports on Components of Financial Statements

Schedule of Accounts Receivable

AUDITOR'S REPORT TO

We have audited the accompanying schedule of accounts receivable of ABC Company for the year ended December 31, 19X1.⁵ This schedule is the responsibility of ABC Company's management. Our responsibility is to express an opinion on the schedule based on our audit.

We conducted our audit in accordance with International Standards on Auditing (or refer to relevant national standards or practices). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the schedule. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of accounts receivable gives a true and fair view of (or presents fairly, in all material respects) the accounts receivable of the Company as of December 31, 19X1 in accordance with ...⁶

AUDITOR

Date

Address

⁵ See footnote 3.

⁶ Indicate the relevant national standards or refer to International Accounting Standards, the terms of an agreement or any described basis of accounting.

Schedule of Profit Participation**AUDITOR'S REPORT TO**

We have audited the accompanying schedule of DEF's profit participation for the year ended December 31, 19X1.⁷ This schedule is the responsibility of ABC Company's management. Our responsibility is to express an opinion on the schedule based on our audit.

We conducted our audit in accordance with International Standards on Auditing (or refer to relevant national standards or practices). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the schedule. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of profit participation gives a true and fair view of (or presents fairly, in all material respects) DEF's participation in the profits of the Company for the year ended December 31, 19X1 in accordance with the provisions of the employment agreement between DEF and the Company dated June 1, 19X0.

AUDITOR

Date

Address

⁷ See footnote 3.

Appendix 3

Examples of Reports on Compliance

Separate Report

AUDITOR'S REPORT TO

We have audited ABC Company's compliance with the accounting and financial reporting matters of sections XX to XX inclusive of the Indenture dated May 15, 19X1 with DEF Bank.

We conducted our audit in accordance with International Standards on Auditing applicable to compliance auditing (or refer to relevant national standards or practices). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether ABC Company has complied with the relevant sections of the Indenture. An audit includes examining appropriate evidence on a test basis. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Company was, in all material respects, in compliance with the accounting and financial reporting matters of the sections of the Indenture referred to in the preceding paragraphs as of December 31, 19X1.

AUDITOR

Date

Address

Report Accompanying Financial Statements**AUDITOR'S REPORT TO**

We have audited the accompanying balance sheet of the ABC Company as of December 31, 19X1, and the related statements of income, and cash flows for the year then ended (the reference can be by page numbers). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We have also audited ABC Company's compliance with the accounting and financial reporting matters of sections XX to XX inclusive of the Indenture dated May 15, 19X1 with DEF Bank.

We conducted our audits in accordance with International Standards on Auditing (or refer to relevant national standards or practices) applicable to the audit of financial statements and to compliance auditing. Those Standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether ABC Company has complied with the relevant sections of the Indenture. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion:

- (a) The financial statements give a true and fair view of (or present fairly, in all material respects) the financial position of the Company as of December 31, 19X1, and of the results of its operations and its cash flows for the year then ended in accordance with ... (and comply with ...); and
- (b) The Company was, in all material respects, in compliance with the accounting and financial reporting matters of the sections of the Indenture referred to in the preceding paragraphs as of December 31, 19X1.

AUDITOR

Date

Address

Appendix 4

Examples of Reports on Summarized Financial Statements

When an Unqualified Opinion Was Expressed on the Annual Audited Financial Statements

AUDITOR'S REPORT TO

We have audited the financial statements of ABC Company for the year ended December 31, 19X0, from which the summarized financial statements⁸ were derived, in accordance with International Standards on Auditing (or refer to relevant national standards or practices). In our report dated March 10, 19X1 we expressed an unqualified opinion on the financial statements from which the summarized financial statements were derived.

In our opinion, the accompanying summarized financial statements are consistent, in all material respects, with the financial statements from which they were derived.

For a better understanding of the Company's financial position and the results of its operations for the period and of the scope of our audit, the summarized financial statements should be read in conjunction with the financial statements from which the summarized financial statements were derived and our audit report thereon.

AUDITOR

Date

Address

⁸ See footnote 3.

When a Qualified Opinion Was Expressed on the Annual Audited Financial Statements**AUDITOR'S REPORT TO**

We have audited the financial statements of ABC Company for the year ended December 31, 19X0, from which the summarized financial statements⁹ were derived, in accordance with International Standards on Auditing (or refer to relevant national standards or practices). In our report dated March 10, 19X1 we expressed an opinion that the financial statements from which the summarized financial statements were derived gave a true and fair view of (or presented fairly, in all material respects) ... except that inventory had been overstated by

In our opinion, the accompanying summarized financial statements are consistent, in all material respects, with the financial statements from which they were derived and on which we expressed a qualified opinion.

For a better understanding of the Company's financial position and the results of its operations for the period and of the scope of our audit, the summarized financial statements should be read in conjunction with the financial statements from which the summarized financial statements were derived and our audit report thereon.

AUDITOR

Date

Address

⁹ See footnote 3.

[Blank Page]