



**International Federation of Accountants**

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# Agenda Item 5

**Committee:** IAASB  
**Meeting Location:** Rome  
**Meeting Date:** June 13-17, 2005

## Special Reports

### Objectives of Agenda Item

1. To review the proposed ISA 701, "The Independent Auditor's Report on Other Historical Financial Information" and the proposed ISA 800, "The Independent Auditor's Report on Summarized Audited Financial Statements," and approve them for public exposure.

### Background

2. The task force members are as follows: Sukanta Dutt (Chair), John Archambault, Josef Ferlings (supported by Wolfgang Boehm), Jonas Hällström (INTOSAI), and John Kelly.

3. The project timetable is as follows:

June 2005	Approval of proposed exposure draft
March 2006	Consideration of summary of significant comments
June 2006	Full review of comments received and first read of proposed final standards
September 2006	Approval of proposed final standards

### Activities Since Last IAASB Discussions

4. The task force met in Düsseldorf on April 28-29, 2005. It considered the comments raised at the March 2005 IAASB meeting, as well as the comment letters received from some IAASB members subsequent to that meeting. The task force's consideration of those comments is further discussed under Matters for Consideration by the IAASB. Agenda Items 5-C and 5-D show the changes processed since the March 2005 IAASB meeting in mark-up format.
5. Subsequent to the March 2005 IAASB meeting, the proposed ISAs on modified opinions, and emphasis of matter and other matters paragraphs were renumbered as ISA 705 and ISA 706 respectively. To emphasize the close link between ISA 700 (Revised), "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" and the proposed ISA on the auditor's report on other historical financial information, the proposed revised ISA 800 was renumbered as ISA 701. The proposed ISA on the auditor's report on summarized audited financial statements was renumbered as ISA 800.

**Matters for Consideration by the IAASB****PROPOSED ISA 701***Scope*

6. The proposed ISA 701 covers auditors' reports on historical financial information other than a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation. The proposed ISA 701 explains that this other historical financial information includes a complete set of financial statements, a single financial statement, and one or more specific elements, accounts or items of a financial statement prepared in accordance with either a financial reporting framework designed for a general or a special purpose.
7. At the March 2005 IAASB meeting, an IAASB member was of the view that the proposed ISA 701 should not establish standards and provide guidance for auditors' reports on one or more specific elements, accounts or items of a financial statement. It was suggested that such reports are mostly required by regulators and are subject to specific situations in the national environment. The IAASB asked the task force to reconsider the scope of the proposed ISA 701.
8. The task force concluded that:
  - Such reports, beyond those required by regulators, may be more common in some jurisdictions than in others. In some jurisdictions, for example, it is common for retail property management entities to obtain auditors' reports on lessees' turnover since rent is determined based on turnover.
  - It is frequently the case that what is common in one jurisdiction becomes common in other jurisdictions.
  - If the proposed ISA 701 does not establish standards and provide guidance for such reports, (a) auditors may refuse to render such service because of the lack of standards and guidance, or (b) the lack of standards and guidance may lead to inconsistency in rendering such service.
  - Developing nations may not have established standard-setting processes through which standards and guidance for such reports could be developed at national level.
  - There is no compelling reason to withdraw the existing standards and guidance in extant ISA 800 for such reports. Consequently, the proposed revised standards and guidance should not be deleted.
9. The task force, however, agreed that the explanatory memorandum should pose the question whether the proposed revised standards and guidance ought to be retained.

*Application of Ethical Requirements and Other ISAs in an Audit of One or More Single Elements, Accounts or Items of a Financial Statement*

10. The proposed ISA 701 explains that the auditor has to comply with the relevant ethical requirements relating to the audit engagement and, in determining the audit procedures to be performed in conducting the audit in accordance with ISAs, has to comply with each of the ISAs relevant to the audit. This is in accordance with ISA 200, “Objective and General Principles Governing an Audit of Financial Statements,” paragraphs 4 and 11. Generally, the ISAs are written in the context of an audit of financial statements, which is defined in ISA 200, paragraph 34, as a complete set of financial statement or a single financial statement. The proposed ISA 701 also establishes standards and provides guidance for auditors’ reports on one or more specific elements, accounts or items of a financial statement.
11. At the March 2005 IAASB meeting, a few IAASB members questioned whether the ISAs could be applied (or adapted to apply) to an audit of one or more single elements, accounts or items of a financial statement. (This argument was also used to support the argument to delete the proposed revised standards and guidance for auditor’s report on one or more single elements, accounts or items of a financial statement.) The IAASB asked the task force to reconsider the guidance.
12. The task force concluded that:
  - To issue a report as a result of an audit of one or more specific elements, accounts or items of a financial statement conducted in accordance with ISAs, the auditor has to comply with the requirements in paragraphs 4 and 11 of ISA 200. For example, in the audit of a lessee’s turnover (as explained above), the auditor has to comply with relevant ethical requirements relating to the engagement and each of the ISAs relevant to the audit. This includes ISAs such as ISA 240, “The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements,” and ISA 570, “Going Concern.”
  - If the audit of a specific element, account or item of a financial statement is conducted in conjunction with the audit of the financial statements of which it forms a part, the above is unlikely to cause difficulty. If such an audit, however, is carried out separately, compliance with each of the ISAs relevant to the audit requires careful consideration, and may not be practicable. Where an audit in accordance with ISAs is not practicable, the auditor has to discuss with the responsible party whether another type of engagement (for example, agreed-upon procedures) may be more practicable.
  - In determining the audit procedures to be performed in conducting an audit in accordance with ISAs, the auditor has to take account of the nature of the entity and its environment, the nature and objective of the other historical financial information, the applicable financial reporting framework, the information needs of the intended users, and other matters, for example, events, transactions, conditions and practices that may have a significant effect on the engagement.
  - The standards and guidance in the proposed ISA 701 should be limited to reporting matters only. Consequently, any standards and guidance on audit related matters contained in extant ISA 800, appropriately revised, should be proposed as conforming amendments to

relevant other ISAs. Providing standards and guidance on audit related matters in the proposed ISA 701 may be interpreted as implying that they are the only “adaptation” necessary, or may give rise to the question as to what other “adaptations” may be necessary.

### *Form of Opinion and Forming the Opinion*

13. In line with ISA 700 (Revised), the proposed ISA 701 explains that, unless otherwise required by law or regulation, the auditor expresses a “true and fair view” or “presents fairly, in all material respects,” opinion on other historical financial information prepared in accordance with a financial reporting framework designed to achieve fair presentation. That includes an opinion on a single financial statement, or one or more specific elements, accounts or items of a single financial statement prepared in accordance with a financial reporting framework designed to achieve fair presentation. At the March 2005 IAASB meeting, some IAASB members were of the view that it is not possible to express a “true and fair view” or “presents fairly, in all material respects,” opinion on one or more specific elements, accounts or items of a single financial statement. Another IAASB member was of the view that, except for a balance sheet, it is also not possible to express such an opinion on a single financial statement. The IAASB asked the task force to reconsider the guidance.
14. The task force concluded that:
  - A financial reporting framework designed to achieve fair presentation could be defined as a financial reporting framework that (a) provides a context for the auditor’s evaluation of the fair presentation of the financial statements, and (b) acknowledges, implicitly or explicitly, that to achieve the objective of fair presentation of the financial statements (i) it may be necessary for management to provide disclosures beyond the specific requirements of the framework, or (b) in extremely rare circumstances, it may be necessary for management to depart from the specific requirements of the framework.
  - The use of the terms “true and fair” and “fair presentation,” is driven by the requirements of the financial reporting framework.
  - The auditor should express a “true and fair view” or “presents fairly, in all material respects,” opinion on other historical financial information (including a single financial statement or one or more specific elements, accounts or items of a financial statement) prepared in accordance with a financial reporting framework designed to achieve fair presentation *of the specific information presented*.
  - In the case of other historical financial information prepared in accordance with a financial reporting framework not designed to achieve fair presentation *of the specific information presented*, the auditor should express an opinion on the appropriateness of the preparation and presentation of the financial information in accordance with the applicable financial reporting framework. The auditor should use the term “properly prepared, in all material respects, in accordance with ...”
  - Any other distinction, for example limiting “true and fair view” or “presents fairly, in all material respects,” opinions to complete sets of financial statements, complete sets of

financial statements and single financial statements, or complete sets of financial statements and balance sheets only, would be arbitrary.

### *Forming an Opinion*

15. Where the auditor expresses a “true and fair view” or “presents fairly, in all material respects,” opinion on the other historical financial information, the proposed ISA 701 provides for the auditor to evaluate the fair presentation of the other historical financial information. The auditor considers the fair presentation of the other historical financial information in accordance with the guidance in ISA 700 (Revised), paragraphs 14-15.
16. Where a different form of opinion is expressed, the proposed ISA 701 provides for the auditor to consider whether the other historical financial information may be misleading in view of the nature of the entity and its environment, the nature and objective of the financial information, the applicable financial reporting framework, the information needs of the intended users, and other matters, for example, events, transactions, conditions and practices that may have a significant effect on the engagement. This consideration is based on a requirement of the proposed revised IFAC Code of Ethics for Professional Accountants. The relevant requirement in the proposed revised Code states that professional accountants should not be associated with reports, returns, communication or other information where they believe that the information (a) contains a material false or misleading statement, (b) contains statements or information furnished recklessly, or (c) omits or obscures information required to be included where such omission or obscurity would be misleading.

### PROPOSED ISA 800

#### *Form of Opinion and Forming an Opinion*

17. Extant ISA 800 requires the auditor to report whether the summarized financial statements are “consistent, in all material respects,” with the financial statements from which it has been derived. The task force believes that the auditor’s opinion in extant ISA 800 does not parallel the proposed procedures to be performed by the auditor. For example, in accordance with the proposed revised standards and guidance, the auditor’s procedures include an evaluation whether the summarized financial statements, in all material respects, contain the information that he or she considers necessary in the circumstances to prevent misrepresentation of the financial statements from which the summarized financial statements have been derived.
18. The task force considered the terms chosen by other standard setters, such as “fairly stated, in all material respects, in relation to ...” used in the United States and “fairly summarized, in all material respects, ...” used in Canada, but was concerned that they may be confused with the terms prescribed in ISA 700 (Revised) and the proposed ISA 701.
19. The task force concluded that the auditor should express an opinion whether the summarized financial statements appropriately summarizes, in all material respects, the financial statements from which it has been derived.

*Misleading Consideration*

20. At the March 2005 IAASB meeting, it was noted that the proposed ISA 810 (now ISA 800) did not provide for the auditor to consider whether the summarized financial information may result in a misrepresentation of the financial information when the responsible party is required or expressly permitted to issue summarized financial information under law or regulation that imposes no corresponding obligation on the responsible party.
21. The proposed ISA 800 now requires the auditor to evaluate, in all circumstances, whether the summarized financial statements, in all material respects, contain all information the auditor considers necessary to prevent misrepresentation of the financial statements from which they have been derived. It explains that this evaluation is intended to meet the ethical requirement not to be associated with misleading information. The auditor, however, conducts this evaluation in view of the nature of the entity and its environment, the nature and objective of the summarized financial statements, *relevant established criteria (if any) and legal or regulatory requirements*, and the information needs of the intended users.

## OTHER MATTERS

22. The task force believes that the revised proposed ISAs reflect the following additional comments raised by the IAASB in March 2005:

PROPOSED ISA 701	
Whether the standards and guidance on prescribed forms of report should provide for circumstances where law or regulation requires the auditor to report in the prescribed format.	701.17-19
The need for additional guidance on piecemeal opinions, providing a link to the related guidance in the proposed ISA 705, "Modifications to the Opinion in the Independent Auditor's Report."	701.38
The appropriateness of the guidance on materiality, i.e., in the circumstances where, in preparing other historical financial information for a special purpose, the responsible party has agreed with the intended users on the materiality level.	Guidance deleted
PROPOSED ISA 800	
The need to clarify that, where criteria for preparing and presenting summarized financial information are not publicly available, the criteria should be made available, i.e., in accordance with the International Framework for Assurance Engagements.	800.12
The need to clarify the auditor's responsibility to evaluate whether the summarized financial information appropriately discloses matters that have a pervasive or otherwise significant effect on the summarized financial information.	800.13(e) read with 800.11(d)
Whether the auditor should disclaim an opinion on the summarized financial	800.23

information when he or she has expressed an adverse opinion or disclaimed an opinion on the financial information from which the summarized financial information has been derived.	
The length of the example auditors' reports on summarized financial information.	800.Appendix - See example reports

**Material Presented**

Agenda Paper 5-A  
(Pages 821 – 846)

Proposed ISA 701, “The Independent Auditor’s Report on Other Historical Financial Information”  
**(CLEAN – to be used at the meeting for discussion purposes)**

Agenda Paper 5-B  
(Pages 847 – 868)

Proposed ISA 800, “The Independent Auditor’s Report on Summarized Audited Financial Statements”  
**(CLEAN – to be used at the meeting for discussion purposes)**

Agenda Paper 5-C  
(Pages 869 – 900)

Proposed ISA 701, “The Independent Auditor’s Report on Other Historical Financial Information”  
**(MARKED)**

Agenda Paper 5-D  
(Pages 901 – 930)

Proposed ISA 800, “The Independent Auditor’s Report on Summarized Audited Financial Statements”  
**(MARKED)**

Agenda Paper 5-E  
(Pages 931 – 934)

Proposed Conforming Amendments

**Action Requested**

The IAASB is asked to review and approve the proposed ISA 701 and ISA 800 for public exposure.

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