

**Special Reports – Summary of Significant Comments on Proposed ISA 701,
“The Independent Auditor’s Report on Other Historical Financial
Information” and the Task Force’s Recommendations****Introduction**

1. Thirty-four comment letters were received on the exposure draft of proposed ISA 701, “The Independent Auditor’s Report on Other Historical Financial Information” and proposed ISA 800, “The Independent Auditor’s Report on Summary Audited Financial Statements” (the “ED”) which was issued in June 2005. The comment date was October 31, 2005. A list of respondents is included in the Appendix.
2. The IAASB also received a letter from the Forum of Firms. This letter was discussed at the October 2005 IAASB meeting. Matters raised by the Forum of Firms are addressed in paragraph 11.
3. At the November 30-December 1, 2005 meeting of the IAASB Consultative Advisory Group (CAG), the working group responsible for monitoring the project on behalf of CAG highlighted matters for CAG’s future consideration. Except for the matter noted in paragraph 50, the matters highlighted are covered by the significant issues identified by the Task Force.
4. This paper explains the significant issues identified by the Task Force based on the comments received on ED-ISA 701 and discusses the Task Force’s deliberations and, where appropriate, recommendations. Significant issues identified by the Task Force based on the responses received on ED-ISA 800 are intended to be discussed at the May 2006 IAASB meeting.
5. The references to ISA 200, “Objective and General Principles Governing an Audit of Financial Statements” and ISA 210, “Terms of Engagements” in this paper are to ISA 200 and ISA 210 amended as a result of ISA 700 (Revised), “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements.”

Overall Comments

6. A small majority of respondents expressed general support for the requirements and guidance in the ED – some, however, with reservation. Other respondents had varying degrees of concerns about various matters dealt with in the ED. Their most serious concerns related to the significant issues listed below.

Significant Issues

7. The significant issues are as follows:

Issue 1: Whether ISA 200 and ISA 210 apply to all financial statements or to general purpose financial statements only.

Issue 2: The description of financial reporting framework in ED-ISA 701.10,¹ and the proposed list of factors that the auditor may consider when evaluating the acceptability of the framework (ED-ISA 701.11²).

Issue 3: When it is appropriate to use the phrase “true and fair/fairly presents” in audit opinions.

Issue 4: Whether the right split has been made between the scope of ISA 700 (Revised) and that of ED-ISA 701.

Issue 5: Whether, and how, the ISAs should address audits of specific elements, accounts or items of a financial statement.

8. Some of these issues are closely related to the financial reporting framework applied in preparing the financial statements. The Task Force was cautious not to develop proposals that will lead to the IAASB taking on the role of an accounting standard setter. In considering other IAASB projects, members of the CAG and of the IAASB recently have cautioned against the IAASB taking on such a role.
9. Some respondents suggested that the IAASB liaise with the International Accounting Standard Board (IASB) regarding some of the identified issues (i.e., what constitutes a

¹ ED-ISA 701.10 reads as follows: Financial reporting frameworks presumed to be acceptable for general purpose financial statements are described in ISA 200. ISA 200, paragraph 45, acknowledges that, in some jurisdictions, legislative and regulatory requirements may supplement a financial reporting framework with additional requirements relating to preparing and presenting the financial statements. In these jurisdictions, the applicable financial reporting framework, for the purposes of applying the ISAs, encompasses both the identified financial reporting framework and such additional requirements, provided they do not conflict with the applicable financial reporting framework. For purposes of this ISA, the financial reporting framework may also encompass:

- The effect of the legal and ethical environment, including statutes, regulations, court decisions, and professional ethical obligations in relation to accounting matters;
- Published views of varying authority on emerging accounting issues and accounting interpretations issued by standards setting, professional or regulatory organizations;
- Industry practices widely recognized and prevalent;
- Accounting literature; and
- The provisions of a contract, including significant interpretations made by the responsible party in preparing and presenting the financial information. (An interpretation is significant if another reasonable interpretation would have produced a material difference in the other historical financial information.)

² ED-ISA 701.11 reads as follows: Unless the financial reporting framework is an established financial reporting framework recognized as suitable for the intended use, or specifically required to be used by law or regulation, the auditor considers whether it exhibits the characteristics of suitable criteria described in the Framework, paragraph 36. The relative importance of each of these characteristics to a particular engagement is a matter of professional judgment, and depends on the nature of the entity and its environment, the nature and objective of the other historical financial information, 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. For example, for the purposes of a balance sheet prepared to establish the value of net assets of an entity at the date of its sale, the vendor and the purchaser may have agreed that very prudent estimates of allowances for uncollectible accounts receivable are to be made. This may result in preparing financial information that is not neutral (see paragraph 36(d) of the Framework), but it may nevertheless be acceptable in the circumstances.

financial reporting framework, and whether historical financial information other than a complete set of financial statements can achieve fair presentation). The Task Force considers that this would not be appropriate since it is important that the ISAs retain their framework neutrality.

10. The Task Force has developed Agenda Items 8-B and 8-C to illustrate its recommendations. **They reflect proposed amendments to ISA 200 and ISA 210 and are for illustrative purposes only.** The text has not been amended to reflect comments other than those addressed by the Task Force's recommendations. The Task Force acknowledges that the proposed amendments may not be perfect at this stage, but believes that they nevertheless will assist the IAASB in discussing the recommendations.

ISSUE 1: WHETHER ISA 200 AND ISA 210 APPLY TO ALL FINANCIAL STATEMENTS OR TO GENERAL PURPOSE FINANCIAL STATEMENTS ONLY

11. Some respondents (e.g., CICA, KPMG), and the Forum of Firms, interpreted ED-ISA 701 as amending or avoiding certain requirements of ISA 210 in respect of financial reporting frameworks applied in preparing general purpose financial statements that fall outside the scope of ISA 700 (Revised). In particular, it was suggested that this might permit auditors to report without restriction on general purpose financial statements prepared in accordance with financial reporting frameworks that have deficiencies, but that are nevertheless required by law or regulation.
12. ISA 210.13-14³ permit the auditor to accept an engagement only when the financial reporting framework is acceptable or required by law or regulation. In the case of general purpose financial statements, an auditor may accept an engagement involving a financial reporting framework required by law or regulation only when any deficiencies in the framework can be adequately explained to avoid misleading users. Furthermore, in such circumstances the auditor does not express a "true and fair/fairly presents" opinion, unless required to do so by law or regulation.

³ ISA 210.13-14 reads as follows: **The auditor should accept an engagement for an audit of financial statements only when the auditor concludes that the financial reporting framework adopted by management is acceptable or when it is required by law or regulation. When law or regulation requires use of a financial reporting framework for general purpose financial statements that the auditor considers to be unacceptable, the auditor should accept the engagement only if the deficiencies in the framework can be adequately explained to avoid misleading users.**

Without an acceptable financial reporting framework management does not have an appropriate basis for preparing the financial statements and the auditor does not have suitable criteria for evaluating the entity's financial statements. In these circumstances, unless use of the financial reporting framework is required by law or regulation, the auditor encourages management to address the deficiencies in the financial reporting framework or to adopt another financial reporting framework that is acceptable. When the financial reporting framework is required by law or regulation and management has no choice but to adopt this framework, the auditor accepts the engagement only if the deficiencies can be adequately explained to avoid misleading users, see ISA 701, "Modifications to the Independent Auditor's Report," paragraph 5 and, unless required by law or regulation to do so, does not express the opinion on the financial statements using the terms "give a true and fair view" or "are presented fairly, in all material respects," in accordance with the applicable financial reporting framework.

13. It was not the intention of the Task Force to permit the situation referred to in paragraph 11 above and, in the view of the Task Force, nothing in ED-ISA 701 suggests otherwise. Furthermore, the Task Force is of the view that the principles in ISA 210, including the conditions under which an engagement to report on financial statements prepared in accordance with a financial reporting framework required by law or regulation may be accepted, should apply to both general purpose and special purpose financial statements within the scopes of ISA 700 and ISA 701.

Task Force's Recommendation

14. The Task Force supports the current practice of writing the ISAs in the context of financial statements as defined in ISA 200.34,⁴ irrespective of whether they have been prepared for a general or special purpose. To eliminate any ambiguity, which it was suggested may give rise to difficult engagement acceptance and reporting decisions, the Task Force recommends that ISA 200 and ISA 210 be revised to make it clear that they apply to audits of both general purpose and special purpose financial statements within the scopes of ISA 700 and ISA 701. The Task Force's recommendation is illustrated in Agenda Item 8-B and Agenda Item 8-C – of particular relevance are paragraphs 1a-1c of Agenda Item 8-B.
15. Furthermore, the Task Force is of the view that the ISAs should recognize differences that may exist in the audits of general purpose financial statements and the audits of special purpose financial statements. (Special considerations in the audits of specific elements, accounts or items of a financial statement are discussed in Issue 5.) These differences are not limited to reporting considerations, but include performance considerations.
16. This issue was partly considered by the IAASB in terms of how special considerations in the audits of other historical financial information in the proposed requirements and guidance for materiality and communications with those charged with governance.
 - In October 2005, the IAASB agreed that proposed ISA 320, "Materiality in Planning and Performing an Audit" and proposed ISA 450, "Evaluation of Misstatements Identified During the Audit" apply to audits of financial statements and to audits of other historical financial information, but that the guidance in the proposed ISAs may need to be adapted in the case of the latter. The IAASB agreed that the proposed ISAs should be described as applying to the audits of financial statements and that their wider application (and adaptation) should be addressed in proposed ISA 701, "The Independent Auditor's Report on Other Historical Financial Information."

⁴ ISA 200.34 reads as follows: The term "financial statements" refer to a structured representation of the financial information, which ordinarily includes 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. The term can refer to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.

- In December 2005, the Communications Task Force reported that it had amended proposed ISA 260, “Communications with Those Charged with Governance” to make it applicable to audits of other historical financial information where those charged with governance have a responsibility to oversee the preparation and presentation of that information. The IAASB noted that, in general, it preferred not to complicate the application of ISAs by introducing specific adaptations needed to make them applicable to financial information other than general purpose financial statements. The IAASB agreed that the proposed ISA should state that it applies to the audit of general purpose financial statements and should include only a general statement about adaptation for audits of other historical financial information.
17. The positions reflected in the above minutes are slightly different, although both agree that special considerations in the audits of other historical financial information should be addressed somewhere other than in proposed ISA 320 (Revised) and proposed ISA 260 (Revised).
18. In relation only to the question of differences between the considerations relevant to general purpose financial statements and those relevant to special purpose financial statements, two questions arise: (a) Where should such differences be recognized? (b) Who should identify them? The Task Force believes that such differences exist only for a limited number of ISAs (e.g., communications with those charged with governance, materiality, going concern, and the auditor’s report), and that it would be best for existing ISAs to acknowledge that differences exist without providing detailed guidance. Going forward, the Task Force believes that task forces responsible for developing or revising specific ISAs should be responsible for identifying differences. The Task Force has not taken a view on whether such differences should be specified in detail and discussed in any ISA or IAPS (except, of course, reporting differences dealt with in proposed ISA 701.

Matters for Consideration by the IAASB:

- (a) Does the IAASB agree with the Task Force’s recommendation to revise ISA 200 and ISA 210 to clarify that they apply to audits of both general purpose and special purpose financial statements?
- (b) Do the proposed amendments to ISA 200 and ISA 210 sufficiently reduce the circumstances that could give rise to difficult engagement acceptance and reporting decisions? If not, what are the remaining circumstances and how can they be addressed?
- (c) What is the IAASB’s views with regard to the treatment of differences that may exist in the audits of general purpose financial statements and the audits of special purpose financial statements?

ISSUE 2: THE DESCRIPTION OF FINANCIAL REPORTING FRAMEWORK AND THE PROPOSED LIST OF FACTORS THAT THE AUDITOR MAY CONSIDER WHEN EVALUATING THE ACCEPTABILITY OF THE FRAMEWORK

Description of Financial Reporting Framework

19. Although there was general agreement with the proposal in ED-ISA 701.10 to extend the sources that may be encompassed within a financial reporting framework, there was:
 - (a) Disagreement about whether all sources proposed were appropriate (e.g., ACCA, APB, AUASB, CICA, EY, JICPA, NIVRA);
 - (b) Concern about the authority of the various sources and how conflicts amongst them, and between them and accounting standards established by an authorized or recognized standards setting organization, might be resolved (e.g., APB, AUASB, CICA, ICAEW, PWC); and
 - (c) Concern about whether the proposal applies to general purpose financial statements as well as special purpose financial statements (e.g., CPA AU, KPMG, PWC, HKICPA).
20. ED-ISA 701.10 recognizes that the auditor may be engaged to report on the audit of a wide variety of historical financial information. Such financial information may be designed to meet the common financial information needs of a wide range of users (ISA 200.40) or the financial information needs of specific users (ISA 200.39). It may be prepared in accordance with accounting standards established by authorized or recognized standards setting organizations (ISA 200.41) or the financial reporting provisions of regulators. The accounting standards established by an authorized or recognized standards setting organization may be supplemented with legislative or regulatory requirements (ISA 200.42). Some financial reporting frameworks adopted by management may not be established by authorized or recognized standards setting organizations or by regulators. This may be because such organizations do not exist (ISA 200.43) or they may not have established accounting standards for financial statements prepared by certain specified entities or to meet specific objectives (e.g., to meet the financial information needs of specific users).
21. Furthermore, most financial reporting frameworks adopted by management do not derive their accounting principles or the application of these principles from accounting standards and legal or regulatory requirements alone. Such frameworks are often influenced by published views of varying authority, industry practice and accounting literature that address the interpretation and application of specific requirements. The description of financial reporting framework in ED-ISA 701.10 gives recognition to these other sources, leading the auditor to consider the entire framework when determining the acceptability of the framework and how its requirements are applied in practice. This is in line with paragraph 34 of the “International Framework for Assurance Engagements,” which states that: “Criteria are the benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure.”

Task Force's Recommendation

22. The Task Force is of the view that part of this significant issue will be addressed by revising ISA 200 and ISA 210 to apply to general purpose and special purpose financial statements (see Issue 1). In addition, the Task Force recommends that:
- (a) The requirements and guidance on Applicable Financial Reporting Framework in ED-ISA 701.10-12 be moved to ISA 200.
 - (b) ISA 701.10, appropriately amended to include accounting standards established by an authorized or recognized standards setting organization and legislative and regulatory requirements, describe financial reporting frameworks that could be applied in preparing general purpose or special purpose financial statements.
 - (c) To address the concern that undue weight is given to industry practices widely recognized and prevalent and accounting literature as compared to sources of greater authority, and the fact that there may be conflicts amongst the different sources within a financial reporting framework, new guidance in ISA 200 clarify that the auditor considers the relative authority of the different sources from which the accounting principles are derived, and, where conflicts exist amongst them, the source with the highest authority prevails.
 - (d) ISA 200 be restructured and amended to provide guidance on financial reporting frameworks in the context of an audit of general purpose financial statements and in the context of an audit of special purpose financial statements.

The Task Force's recommendations are illustrated in paragraphs 36a-48g of Agenda Item 8-B.

<p>Matters for Consideration by the IAASB:</p> <ol style="list-style-type: none"> 1. Does the IAASB agree with the Task Force's recommendation to retain ED-ISA 701.10, appropriately amended and moved to ISA 200, as illustrated in paragraph 36b of Agenda Item 8-B? 2. Does the IAASB agree with the amended guidance on financial reporting frameworks in paragraphs 36a-48g of Agenda Item 8-B?
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Factors that the Auditor may Consider when Determining the Acceptability of the Financial Reporting Framework

23. Some respondents (e.g., KPMG, PWC, HKICPA) were concerned about the factors that the auditor considers when determining the acceptability of the financial reporting framework (ED-ISA 701.11). They were of the view that some of the factors may undermine frameworks applied in preparing general purpose financial statements.
24. ISA 200.38 states that the auditor determines whether the framework adopted by management is acceptable in view of the nature of the entity and the objective of the financial statements. The Task Force reconsidered the factors in ED-ISA 701.11 and is of the view that the auditor's determination of the acceptability of the framework may also be affected by other factors such as the nature of the financial statements, the applicable legislative and regulatory requirements, and other matters such as events, transactions,

conditions and practices that may have a significant effect on the engagement. The Task Force believes that additional examples of factors will assist the auditor in determining the acceptability of frameworks applied in preparing both general purpose and special purpose financial statements (rather than permitting the auditor to accept unacceptable frameworks as believed by some respondents).

Task Force's Recommendation

25. The Task Force recommends that ISA 200.38 be amended to include additional examples of factors that the auditor takes into account when determining the acceptability of the financial reporting framework. See paragraph 38 of Agenda Item 8-B.

Matters for Consideration by the IAASB:
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Does the IAASB agree with paragraph 38 of Agenda Item 8-B?
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ISSUE 3: WHEN IT IS APPROPRIATE TO USE THE PHRASE “TRUE AND FAIR/FAIRLY PRESENTS” IN AUDITORS’ REPORTS

26. Many respondents (e.g., AC (UK), ACAG, ACCA, AICPA, CIPFA, DTT, FEE, FICPA, GAO, ICAI, ICPAC, ICAZ, IDW) stated that they were in agreement with the proposed distinction in ED-ISA 701.15-16.⁵ Some respondents (e.g., EY, HKICPA, ICAS, IRE, NIVRA, PAAB), however, were concerned about the use of the phrase “true and fair/fairly presents” in opinions on historical financial information other than complete sets of general purpose financial statements. Some (e.g., APB) suggested that it be limited to complete sets of financial statements and single financial statements. Others (e.g., PWC) suggested that it be limited to complete sets of financial statements and balance sheets only. Respondents (e.g., JICPA, KPMG, PWC) also commented on the phrase “financial reporting framework designed to achieve fair presentation *of the specific information presented*,” and the fact that they were not able to identify a recognized financial reporting framework that explicitly deals with the preparation of financial information other than a complete set of financial statements.
27. Comments indicate that not all respondents attribute the same meaning to the phrase “true and fair/fairly presents” and do not have a similar understanding of the circumstances in which such an opinion should be permitted. For example:

⁵ ED-ISA 701.15-16 read as follows: The auditor also uses the terms “give a true and fair view” or “are presented fairly, in all material respects,” to express the audit opinion on other historical financial information 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 expresses an opinion on the appropriateness of the preparation and presentation of the other historical financial information in accordance with the applicable financial reporting framework. The auditor uses the term “properly prepared, in all material respects, in accordance with the applicable financial reporting framework” to express the audit opinion. The financial reporting framework may be designed for a general or special purpose.

- GT was of the view that the auditor has two obligations with respect to the financial reporting framework – that is, to determine whether the framework is acceptable and to evaluate the fair presentation of the financial information against the framework, regardless of whether the framework was designed to achieve fair presentation. According to GT, “true and fair/fairly presents” means that the auditor has stood back and determined that the presentation of the subject matter against the criteria is unbiased. The phrase “true and fair/fairly presents,” therefore, may be used with any subject matter and any suitable criteria.
- CICA was of the view that the use of the phrase “true and fair/fairly presents” is not linked to the design of the financial reporting framework. There is, however, a close link between the framework and the purpose of the financial statements. When the purpose of the financial statements is to meet the common financial information needs of a wide range of users, an acceptable framework would be one that achieves fair presentation. CICA was of the view that, when general purpose financial statements are prepared using a framework that is designed to demonstrate an entity’s compliance with the law, the auditor should issue a modified audit opinion if such financial statements do not achieve fair presentation.
- CPA AU believed that an audit opinion providing reasonable assurance should clearly state whether, in the auditor’s opinion, the financial information “gives a true and fair view/is presented fairly, in all material respects,” in accordance with the applicable financial reporting framework. Regardless of the framework, the information should fairly present the substance of events or transactions. If the information is not fairly presented, the auditor should express a modified audit opinion. The objective of a reasonable assurance engagement as described in the International Framework for Assurance Engagements will not be met when information is “properly prepared” – at best, the opinion on such information should provide limited assurance.
- FEE and IDW referred to the situation in various European jurisdictions where a “true and fair” opinion has historically been associated, in law or practice, with a complete set of financial statements, and a “fairly presents” opinion has more often been associated with single financial statements or elements thereof. They were of the view that this provides a basis for suggesting limitations on the use of “true and fair” in relation to financial information other than complete sets of financial statements without unduly extending this limitation to the use of “fairly presents.”
- AUASB disagreed with the view that “true and fair/fairly presents” opinions cannot be expressed on one or more specific elements, accounts or items in a financial statement. It was of the view that a schedule of accounts receivable, for example, can be said to be prepared in accordance with a financial reporting framework designed to achieve fair presentation where the preparer has complied with all the requirements of that framework relevant to accounts receivable. KPMG was of the view that IFRSs discuss fair presentation only in the context of a complete set of financial statements and the fair presentation of the financial position, financial performance and cash flows of an entity. FEE was of the view that some

frameworks, including IFRSs and certain European frameworks, do not permit a preparer to present a balance sheet, a cash flow statement or another single item in isolation and claim compliance with that specific framework.

- IDW disagreed with the contention that a financial reporting framework must establish the fair presentation *of the specific information presented* for a “presents fairly” opinion to be given, because this is at variance with the underlying contention that the requirements of the framework determine when and how a fair presentation assertion is appropriate. Only the framework determines when and how fair presentation ought or ought not to be used. However, in the unlikely circumstance that a framework is silent on the issue of whether certain information can be fairly presented, this does not imply that the use of fair presentation is prohibited for other than complete sets of financial statements. Rather, the use of fair presentation in these circumstances depends upon the meaning of that term as defined in that framework. In other words, practitioners must look to the meaning of fair presentation within a particular framework to determine the circumstances when it should or should not be used.

Task Force’s Deliberations

28. The Task Force is of the view that, subject to applicable law or regulation, the form of opinion is determined by the applicable financial reporting framework.
29. The Task Force is of the view that fair presentation is achieved when the applicable financial framework:
 - (a) Provides a context for the auditor’s evaluation of the fair presentation of the financial statements; and
 - (b) Acknowledges 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 (“disclosure override” as a convenient shorthand for the purposes of this paper); or
 - (ii) In extremely rare circumstances, it may be necessary for management to depart from the specific requirements of the framework (“recognition and measurement override”).

This acknowledgement may be implicit in the case of (b)(i).

Although the framework may not specify how to account for or disclose all transactions or events, it ordinarily embodies sufficient broad principles that can serve as a basis for developing and applying accounting policies that are consistent with the concepts underlying the requirements of the framework. Thus, the framework provides a context for the auditor’s evaluation of the fair presentation of the financial statements, including whether the financial statements have been prepared and presented in accordance with the specific requirements of the framework for particular classes of transactions, account balances and disclosures.

30. The Task Force's view expressed in paragraph 28 is based on the belief that financial statements represent, for example, the financial position, financial performance or cash flows of an entity, and that fair presentation is achieved when these are represented fairly by the financial statements. An opinion on the fair presentation of the financial statements is therefore not only an opinion on the preparation of the financial statements, but also on the "picture" that they present. It follows that the framework must be designed to enable this to be done. Where the role of the auditor is confined to forming an opinion on whether the financial statements are prepared in accordance (compliance) with the framework (referred to as a "compliance audit"), and that framework does not have the characteristics referred to in paragraph 29, then those are the words that most appropriately reflect that objective.
31. Ignoring the effect of applicable law or regulation and on the basis of its views stated in paragraphs 28-30, the Task Force debated alternative responses to the comments received. These alternatives were debated in the context of complete sets of financial statements and are presented below. Paragraphs 40 to 41 discuss the form of opinion for single financial statements. (Special considerations in the audits of specific elements, accounts or items of a financial statement are discussed in Issue 5.)

Form of Opinion on Complete Sets of Financial Statements

32. Alternative 1: Consistent with the Task Force's view on the meaning of fair presentation, require the use of "true and fair/fairly presents" opinions when the framework is a fair presentation framework, and the opinion is expressed on whether the financial statements give a true and fair view or present fairly, in all material respects, the financial position, financial performance and cash flows of the entity in accordance with the framework. In all other cases, the required opinion would be that the financial statements are prepared, in all material respects, in accordance with the framework.
33. Alternative 2: Acknowledge that there is a difference between the phrases "true and fair" and "fairly presents" in that the phrase "true and fair" is closely associated with those frameworks (or jurisdictions) that provide for a recognition and measurement override (which is why it is commonly referred to as a "true and fair override"). The phrase "true and fair" would be used only in those cases to express an opinion whether the financial statements give a true and fair view of the financial position, financial performance and cash flows of the entity in accordance with the framework. The phrase "fairly presents" would be used in the case of all other fair presentation frameworks (i.e., frameworks that provide either explicitly or implicitly for a disclosure override). In such cases, the opinion is expressed on whether the financial statements present fairly, in all material respects, the financial position, financial performance and cash flows of the entity in accordance with the framework. In all other cases, the required opinion would be that the financial statements are prepared, in all material respects, in accordance with the framework.
34. Alternative 3: Link the form of opinion exclusively to whether the framework is a fair presentation framework. Thus, in the case of a fair presentation framework, the opinion would be either that "the financial statements give a true and fair view of or present fairly, in all material respects, the financial position, financial performance and cash

flows of the entity in accordance with the framework;” or “the financial statements are fairly presented, in all material respects, in accordance with the framework.” It is the latter form of opinion that distinguishes this alternative from Alternatives 1 and 2. In all other cases, the required opinion would be that the financial statements are prepared, in all material respects, in accordance with the framework.

35. Alternative 4: Create no link between the framework and the form of opinion. Under this alternative, all opinions would contain the phrase “true and fair/fairly presents,” irrespective of the framework. Under this alternative, fair presentation is in effect the application of the framework to the data to arrive at the financial statements, rather than on the “picture” given by those statements. This alternative is closer to the view of a few respondents, but is different from the Task Force’s view of the meaning of fair presentation. Furthermore, in some jurisdictions it would require a “true and fair/fairly presents” opinion where the profession has not done so before, and would attach such an opinion to information that does not achieve fair presentation. The Task Force has therefore rejected this alternative.
36. The Task Force regards the choice as being amongst the first three alternatives. Some members of the Task Force support Alternative 1, as it is consistent with the Task Force’s view of the meaning of fair presentation. It results in an opinion that exactly reflects the aim of the audit, and it is the only alternative that logically supports the equivalence of the phrases “true and fair” and “fairly presents” in all circumstances. However, on balance, the Task Force proposes that Alternative 3 be adopted, which is effectively what was in ED-701. The Task Force considers that, even in the case where the form of opinion is that “the financial statements are fairly presented, in all material respects, in accordance with the framework,” the use of the phrase “fairly presents” has value. This is because it conveys both that the framework encompasses the possibility (indeed, necessity) of going beyond the simple rules of the framework in the circumstances described in paragraph 29 above, and that the auditor has considered this aspect which is required to achieve fair presentation. To the extent that different financial reporting frameworks are consistent, Alternative 3 will promote consistent practice.
37. Furthermore, as regards the form of opinion on single financial statements (which is discussed in paragraphs 40 and 41), Alternative 1 may result in changes in practice for those jurisdictions currently expressing “true and fair/fairly presents” opinions on single financial statements. Alternative 3 causes the least amount of change in current practice around the world.
38. As regards compliance audit opinions, in the light of the comments, the Task Force debated whether the “prepared, in all material respects, in accordance with” opinion should read “properly prepared ...,” as was proposed in ED-ISA 701. The Task Force is concerned that the word “properly” might have caused confusion. For example, CICA was of the view that “properly prepared” connotes a higher level of exactitude than “fairly presents.” CPA AU, on the other hand, was of the view that the objective of a reasonable assurance engagement, as described in the “International Framework for Assurance Engagements,” will not be met when information is “properly prepared” – at best, the opinion on such information should provide limited assurance. While the Task

Force does not accept these arguments, it does acknowledge that some confusion appears to be generated by the use of the term. It therefore recommends that the phrases “prepared, in all material respects, in accordance with ...” or “prepared, in all material respects, in compliance with ...” be used.

39. Following from paragraph 38, it is important to note that the phrase used to express the opinion does not affect the quality of the opinion; rather “true and fair/fairly presents” represent an additional overall assertion that the financial statements have to satisfy because it is required by the applicable financial reporting framework. Hence, reasonable assurance is obtained whether or not the phrase “true and fair,” “fairly presents” or “prepared, in all material respects, in accordance with” is used. The phrase is determined by the audit mandate (in the case of compliance audits) and the applicable financial reporting framework.

Form of Opinion on Single Financial Statements

40. The Task Force debated the form of opinion for single financial statements, but was not able to reach a conclusion. It was clear that many respondents were uncertain on this point. Two alternative approaches were identified. In the first approach, the form of opinion for a single financial statement is determined in the exact same way as it is determined for a complete set of financial statements. Thus, if the recommendation above is accepted, Alternative 3 would be followed. There may, however, be financial reporting frameworks that, while they are fair presentation frameworks, explicitly reject the idea that fair presentation can be achieved by anything other than a complete set of financial statements. In such cases, for the purpose of reporting on a single financial statement, the framework cannot be regarded as a fair presentation framework, and the required opinion would be a compliance audit opinion. In cases where a fair presentation framework is silent as to whether fair presentation can be achieved by a single financial statement, a fair presentation opinion would be acceptable.
41. The second approach is to require “prepared, in all material respects in accordance with” opinions for all single financial statements. This would be subject to the provisions of applicable law or regulation, or explicit confirmation in the financial reporting framework that a single financial statement is capable of achieving fair presentation (of, for example in the case of a balance sheet, the financial position). It would avoid the debate about whether single financial statements are capable of achieving fair presentation on their own, in that the term would not be used unless acknowledged in the framework to do so. The approach could be argued to be safer than the alternative that assumes this to be so unless the framework specifically states the contrary.

Matters for Consideration by the IAASB:

The Task Force is asking the IAASB to consider the comments received and alternatives debated by the Task Force, and to provide the Task Force with direction.

ISSUE 4: WHETHER THE RIGHT SPLIT HAS BEEN MADE BETWEEN THE SCOPE OF ISA 700 (REVISED) AND THAT OF ED-ISA 701

42. The scope of ISA 701 was primarily determined as a result of the agreed scope of ISA 700 (Revised), which was issued prior to ED-ISA 701. ISA 700 (Revised) is limited to auditors' reports on complete sets of general purpose financial statements prepared in accordance with financial reporting frameworks designed to achieve fair presentation. Consequently, auditors' reports issued on complete sets of general purpose financial statements prepared in accordance with other frameworks (e.g., "compliance frameworks") are addressed in ED-ISA 701. In addition, ED-ISA 701 addresses auditors' reports on complete sets of financial statements and single financial statements prepared for a special purpose, and auditors' reports on specific elements, accounts or items of a financial statement prepared for a general purpose or a special purpose. Some of the opinions required by ED-ISA 701 are "true and fair/fairly presents" opinions, while others are compliance opinions; ISA 700 (Revised), because of its scope, only deals with "true and fair/fairly presents" opinions.
43. From the comments it is clear that respondents found the split between the scope of ISA 700 (Revised) and that of ED-ISA 701 to be very complex. The simplicity of the old split between general purpose audits in ISA 700 and special purpose audits in ISA 800 had been lost as a result of the narrow scope of ISA 700 (Revised). There were different views on how the proposed complexity might be resolved. Some suggested a split based on form of opinion – that is, one ISA should deal with "true and fair/fairly presents" opinions, while the other should deal with other forms of opinion. This suggestion seems to be related to respondents' understanding of the circumstances in which the respective forms of opinion should be expressed – that is, some respondents believe that "true and fair/fairly presents" opinions should be expressed on all general purpose financial statements (see Issue 3.) The Task Force believes that this issue is the fundamental one to be resolved. If there is a common understanding of the circumstances in which the respective forms of opinion should be expressed, some of the complexity in the scopes of the respective ISAs will disappear.

Task Force's Recommendations

44. The Task Force accepts that (as suggested by KPMG) a split between auditors' reports on general purpose financial statements and auditors' reports on special purpose financial statements would provide the users of the ISAs with a clear indication as to where to look for requirements and guidance relevant to auditors' reports.
45. The Task Force therefore recommends that ISA 700 (Revised) address auditors' reports on general purpose financial statements and proposed ISA 701 address auditors' reports on special purpose financial statements. Both ISAs should address complete sets of financial statements and single financial statements (i.e., financial statements as defined in ISA 200.34). Consequently, auditors' reports issued as a result of compliance audits of general purpose financial statements will be addressed in ISA 700 (Revised). Similarly, auditors' reports on single financial statements prepared for a general purpose will be addressed in ISA 700 (Revised).

Matters for Consideration by the IAASB:

Does the IAASB agree with the Task Force's recommendation to amend the scope of ISA 700 (Revised) to deal with all general purpose financial statements and the scope of proposed ISA 701 to deal with special purpose financial statements? If not, how else can the scope of these ISAs be simplified?

RECOMMENDATION TO ISSUE 5: WHETHER THE ISAS SHOULD ADDRESS AUDITS OF SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT AND THE PRACTICALITY OF LEAVING IT TO THE AUDITOR'S JUDGMENT TO DETERMINE WHICH ISAS OR REQUIREMENTS THEREOF ARE RELEVANT TO SUCH AUDITS

46. A majority of respondents agreed that the ISAs should address audits of specific elements, accounts or items of a financial statement. A small number of respondents (e.g., APB, ICAS), however, were of the view that the ISAs should not contain requirements and guidance for auditors' reports on specific elements, accounts or items of a financial statement. A small number of respondents (e.g., AUASB, CICA, FEE, KPMG, PWC) disagreed with, or questioned the completeness of, the proposed requirements and guidance. In particular, respondents were concerned about leaving it to the auditor's judgment to determine which ISAs, or requirements thereof, are relevant to the audit of a specific element, account or item of a financial statement (see ED-ISA 701.7⁶). Many respondents were concerned about using the phrase "true and fair/fairly presents" in the auditor's opinion on a specific element, account or item of a financial statement (see Issue 3).
47. ICAEW noted that "the proposed requirements and guidance are a courageous attempt to accommodate the very wide variations in views both across and within jurisdictions as to whether it is possible, or indeed right, to give an 'audit level' opinion on anything other than a complete set of financial statements, whilst attempting to prevent any dilution of audit quality in those jurisdictions which take a conservative view." ICAEW believed that further debate was needed in this fundamental area, taking account of the views of accounting standard setters and regulators, as well as auditors and preparers. It noted that it would welcome the opportunity to contribute to this debate.
48. The Task Force is of the view that there is a need for requirements and guidance on audits of specific elements, accounts or items of a financial statement because there are well

⁶ ED-ISA 701.7 reads as follows: ISA 200, paragraph 4, requires the auditor to comply with relevant ethical requirements relating to an audit engagement. ISA 200, paragraph 11, requires the auditor, in determining the audit procedures to be performed in conducting an audit in accordance with ISAs, to comply with each of the ISAs relevant to that audit. These requirements apply to an audit of a specific element, account or item of a financial statement. If an 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, this 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 discusses with the responsible party whether another type of engagement may be more practicable.

established practices relating to reporting on such items in a number of jurisdictions. The requirements and guidance should not be limited to reporting considerations, but should also include planning and performance considerations. The completion of proposed ISA 701, however, should not be delayed until such requirements and guidance have been developed.

Task Force's Recommendations

49. The Task Force therefore recommends that:

- (a) The IAASB initiate a separate project to develop a separate ISA on the special considerations in the audit of specific elements, accounts or items of a financial statement.
- (b) In the interim, ED-ISA 701.7, appropriately amended to take account of the comments to the extent possible in the circumstances, be moved to ISA 200.
- (c) The reporting requirements and guidance, including examples, within extant ISA 800 be retained in ISA 701 until the project in (a) commences.

The Task Force's recommendations are illustrated in paragraphs 1d-1g of Agenda Item 8-B.

Matters for Consideration by the IAASB:

- 1. Does the IAASB agree with the Task Force's recommendation that a separate project should be initiated to develop a separate ISA on the special considerations in the audit of one or more specific elements, accounts or items of a financial statement?
- 2. Does the IAASB agree with the Task Force's recommendations in paragraph 49(b)-(c) above?

50. Based on a comment raised by the CAG Working Group (see paragraph 3), the Task Force also considered the completeness of the scopes of ISA 700 (Revised) and proposed ISA 701. The CAG Working Group (and some respondents) asked whether the ISAs cover, for example, auditors' reports on historical financial information that reflect the utilization of funds received from donor organizations. Referring to the examples of a single financial statement and examples of a specific element, account or item of a financial statement in Appendix 1 to ED-ISA 701 (now proposed as an appendix to ISA 200 – see Agenda Item 8-B), the Task Force was of the view that such auditors' reports are covered by the ISAs.

51. However, the Task Force also considered the scopes of ED-ISA 701 and ISAE 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information."

- PWC, for example, was of the view that the audit of a specific element, account or item of a financial statement is an ideal circumstance in which to apply ISAE 3000. It noted that, within the existing scope of ISAE 3000, auditors already can use that framework for the audit of financial information that is not historical. Auditors can

also use it to audit numerical information that is not financial. Thus the framework provides an appropriate basis from which to design and perform an audit of certain financial and other numerical information. Therefore, it seemed quite illogical to PWC that the scope of ISAE should be restricted to other historical financial information.

- IDW and FEE, for example, were concerned that there is a gap in coverage between the ISAs and ISAE 3000. They were of the view that the ISAs cover financial statements and specific elements, accounts or items of a financial statement, while ISAE 3000 only covers subject matters that are not historical financial information. Consequently, IAASB would not cover historical financial information that is not a financial statement or elements, accounts or items thereof, for example a transaction or series of transactions (e.g., shares) pursuant to a contract between two private individuals or an audit of certain historical costs (e.g., associated with construction) presented in accordance with the terms of a contract, industry practice or applicable legislation.

52. The Task Force is of the view that the confusion is created by differences in view of the meaning of the term “historical financial information.” The significance of the term is for the cut between the ISAs (historical financial information) and the ISAEs (other information). Rather than change this distinction, it may be preferable to decide where the IAASB want that cut to be, and to define “historical financial information” accordingly. Possibilities might include:

- All information of a financial nature that is historical. This would apply the ISAs to everything that is expressed in financial terms (e.g., an audit opinion on average share prices, or asset values).
- Information derived primarily from an entity’s accounting system – irrespective of its form (e.g., information about expenditure in pursuance of a contract or project, such as is often required by a grant provider).
- Information included in financial statements. This would restrict the definition to information actually appearing in financial statements.

The Task Force has not taken a firm view, and seeks guidance from the IAASB. It seems unlikely to the Task Force that the first option was envisaged by the IAASB when approving the scope of ISAE 3000 as compared with the scope of the ISAs. The third option may be thought too narrow, and so the Task Force is inclined to favor the second option.

Matters for Consideration by the IAASB:

The IAASB is asked to consider the most appropriate cut between the scopes of the ISAs and the ISAEs. How should “historical financial information” be defined to reflect such cut?

Appendix

Respondents List – ED-ISAs 701 & 800			
Organization	Organization	Type	Total
AICPA	American Institute of Certified Public Accountants	MB	1
ACCA	The Association of Chartered Certified Accountants	MB	2
APB	Auditing Practices Board (United Kingdom)	Other	3
AC (UK)	Audit Commission	Government Organiza tion	4
ACAG	Australasian Council of Auditors-General	Government Organiza tion	5
AASB	Australian Government – auditing and Assurance Standards Board	Other	6
CICA	The Canadian Institute of Chartered Accountants	MB	7
CPA AU	CPA Australia	MB	8
CIPFA	Chartered Institute of Public Finance and Accountancy	MB	9
DI	Dansk Industri (Confederation of Danish Industries)	Other	10
DTT	Deloitte Touche Tohmatsu	Firm	11
DFCG	Association Nationale des Directeurs Financiers et de Controle de Gestion	Other	12
EY	Ernst & Young Global	Firm	13
FEE	Federation des Experts Comptables Europeens	Other	14
FICPA	Florida Institute of Certified Public Accountants	Other	15
GAO	United States Government Accountability Office	Government Organiza tion	16
GT	Grant Thornton International	Firm	17
IDW	Institut der Wirtschaftsprufer	MB	18
ICPAC	The Institute of Certified Pubic Accountants of Cyprus	MB	19

ICPAS	Institute of Certified Public Accountants of Singapore	MB	20
ICAEW	The Institute of Chartered Accountants in England and Wales	MB	21
ICAI	The Institute of Chartered Accountants in Ireland	MB	22
ICAS	The Institute of Chartered Accountants of Scotland	MB	23
ICAZ	The Institute of Chartered Accountants of Zimbabwe	MB	24
IRE	Instituut der Bedrijfsrevisoren (Koninklijk Instituut) / Institut des Réviseurs d'Entreprises (Institut royal)	MB	25
HKICPA	Hong Kong Institute of Certified Public Accountants	MB	26
JICPA	The Japanese Institute of Certified Public Accountants	MB	27
KPMG	KPMG	Firm	28
LSCA	London Society of Chartered Accountants	Other	29
Michael F. Ell	Michael F. Ell, CGA	Other	30
NIVRA	Koninklijk Nederlands Instituut van Registeraccountants (Royal NIVRA)	MB	31
PWC	PricewaterhouseCoopers	Firm	32
PAAB	Public Accountants' and Auditors' Board	Other	33
UNICE	Union of Industrial and Employers' Confederations of Europe	Other	34

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