

ED-ISA 800, The Independent Auditor's Report on Summary Audited Financial Statements—Summary of Significant Comments and 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," which was issued in June 2005. The comment date was October 31, 2005. A list of respondents is included in the Appendix.
2. This paper summarizes the significant comments on ED-ISA 800 and the Task Force's recommendations. Significant comments and recommendations on ED-ISA 701 were discussed at the March and May 2006 IAASB meetings.

Significant Comments on ED-ISA 800 and the Task Force's Recommendations

SHOULD THE REQUIREMENTS AND GUIDANCE FOR AUDITORS' REPORTS ON SUMMARY FINANCIAL INFORMATION DERIVED FROM AUDITED FINANCIAL STATEMENTS BE RETAINED WITHIN THE ISAS

3. The explanatory memorandum that accompanied the exposure draft explained that the IAASB concluded that because summary financial information is derived from audited financial statements and the auditor's report on summary financial information is closely linked to the auditor's report on the audited financial statements, the requirements and guidance should form part of the ISAs.
4. The majority of respondents were of the view that the requirements and guidance should be retained within the ISAs, and that they should be placed in a separate ISA.
5. AUASB suggested that the introduction to the proposed ISA be expanded to explain (a) the objective of the auditor's work, (b) the level of assurance to be obtained, and (c) on what assurance should be obtained (i.e., is the auditor obtaining assurance on the content of the summary financial information, or its consistency with the audited financial statements).
6. Five respondents (ACCA, APB, CIPFA, ICAEW, IRE) were of the view that the requirements and guidance should not be retained within the ISAs.
 - ACCA noted that the auditor's report is not issued as a result of an audit of summary financial information, and that the proposed procedures and form of opinion do not indicate an engagement intended to provide reasonable assurance. ACCA noted that there is a clear public interest argument in favor of auditors' reports issued as a result of audits conducted in accordance with ISAs, as that term is widely understood. It therefore concluded that ED-ISA 800 should be changed to mandate a reasonable assurance engagement.

- APB was of the view that the requirements and guidance should be classified as an International Standard for Assurance Engagements (ISAE). Although the summary financial information is derived from audited financial statements and the auditor's report on the summary financial information is closely linked to the auditor's report on the audited financial statements, the APB felt that it is not an audit engagement and the auditor's report is not issued as a result of an audit.
- ICAEW noted that summary financial information is regulated by legislation or securities regulators in many jurisdictions. It is therefore inevitable that, whatever wording is proposed for the auditor's report on summary financial information, the IAASB's requirements and guidance are likely to conflict with legislation or regulation in some jurisdictions. This, in turn, is likely to result in significant "ISA pluses," "ISAs minuses," or "ISA carve-outs," which will be detrimental to the adoption of ISAs in their entirety. On balance, the ICAEW considered that it would be better for the IAASB to deal with summary financial information outside the main body of ISAs. This view was supported by CIPFA and IRE. (ICAEW also stated that, were alternative forms of opinion to be permitted, an ISA would be less problematic.)

Task Force's Recommendation

7. The Task Force concurs with the majority of the respondents that the requirements and guidance should be presented in an ISA because:
 - Summary financial information is historical financial information and, according to the Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services, the ISAs apply to historical financial information;
 - The audit of the financial statements from which the summary financial information is derived should provide sufficient appropriate audit evidence on which to base the opinion on the summary financial information. The auditor therefore has obtained reasonable assurance on the summary financial information. An engagement to report on summary financial information derived from audited financial statements is in fact an audit, albeit based on the audit of the financial statements from which it is derived.
 - In an audit of financial statements the auditor plans and performs the audit to reduce audit risk to an acceptably low level that is consistent with the objective of an audit. The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. In an engagement to report on summary financial information the auditor plans and performs the work to reduce to an acceptably low level the risk that the summary financial information derived from the audited financial statements is not prepared and presented in accordance with the applied criteria.

8. To address potential conflict with law or regulation in some jurisdictions, the Task Force recommends that alternative forms of opinion be allowed. Paragraph 16 of the proposed revised ISA (Agenda Item X-B) recognizes that in some jurisdictions, law or regulation governing reporting on summary financial information may prescribe wording for the opinion that is different from that described in the proposed revised ISA. Where this is the case, the auditor uses the prescribed wording; however, the auditor's procedures described in the proposed revised ISA remain the same, with the addition of any further procedures necessary to enable the auditor to express the prescribed opinion.

Matter(s) for Consideration by the IAASB:
--

Does the IAASB agree with the Task Force's conclusion?
--

CRITERIA FOR PREPARING AND PRESENTING SUMMARIES OF AUDITED FINANCIAL STATEMENTS

9. ED-ISA 800 recognized that established criteria for preparing and presenting summary financial information may not exist. ED-ISA 800.12 explained that, when established criteria do not exist, the risk increases that the summary financial information may not contain the information necessary so as to avoid being misleading in the circumstances. Consequently, the auditor evaluates whether the criteria applied in preparing and presenting the summary financial information result in (a) summary financial information that agree with or can be recalculated from the related information in the audited financial statements from which they are derived, and (b) summary financial information that contain the information necessary so as to avoid being misleading in the circumstances.
10. GT was of the view that the auditor should only perform an engagement to report on summary financial information when the financial reporting framework has established criteria for summarizing financial information. Where such criteria do not exist, GT questioned whether there is sufficient evidence that the applied criteria are suitable, available and understood in the markets. HKICPA supported this view.
11. NIVRA noted that paragraph 36 of the International Framework for Assurance Engagements explicitly states that the evaluation or measurement of the subject matter on the basis of the practitioner's own expectations, judgments and individual experience would not constitute suitable criteria. This would imply that the auditor without suitable criteria cannot accept an engagement to report whether the summary financial information is an appropriate summary of the audited financial statements from which it is derived, in accordance with the specified established criteria or the bases described.

Task Force's Recommendation

12. The Task Force is of the view that established criteria for preparing and presenting summary financial information do not exist in the majority of cases; yet summary financial information are prepared with little or no known difficulty. The Task Force is of the view that the auditor should be permitted to accept an engagement in circumstances where established criteria do not exist. However, for the auditor to accept the engagement, the criteria applied by management in preparing and presenting the summary financial information have to result in the summary financial information

described in paragraph 11 of the proposed revised ISA (see Agenda Item X-B). Of particular importance is the fact that the applied criteria are described in the summary financial information.

Matter(s) for Consideration by the IAASB:

Does the IAASB agree with the Task Force's conclusion?

FORM OF OPINION ON SUMMARY AUDITED FINANCIAL STATEMENTS

13. Extant ISA 800 requires the auditor to report whether the summary financial information is “consistent, in all material respects” with the audited financial statements from which it is derived. This is used in certain jurisdictions, whether by practice or as required by law or regulation. Other standard setters have chosen different phrases, such as “fairly stated, in all material respects, in relation to ...” (United States), and “fairly summarized, in all material respects, ...” (Canada).
14. The explanatory memorandum that accompanied the exposure draft noted that different people may understand the phrase “consistent, in all material respects” in different ways, perhaps because of translation issues. For example, one view was that summary financial information, by their nature, cannot be “consistent” with the audited financial statements from which they are derived. Another view was that it is not appropriate for the auditor's procedures to be limited to a “consistency check” (as implied by the wording of the opinion¹ in extant ISA 800). Although these interpretations were not necessarily shared by the IAASB, it seemed desirable at the time to avoid any confusion in the auditor's report.
15. In finalizing ED-ISA 800, the IAASB considered the phrases “fairly stated, in all material respects” and “fairly summarized, in all material respects.” ISA 700 (Revised) and proposed ISA 701 distinguish fair presentation frameworks from other frameworks, and provide guidance on the use of the phrases “give a true and fair view” and “are presented fairly, in all material respects.” Consequently, the IAASB was concerned that the use of phrases such as “fairly stated, in all material respects,” and “fairly summarized, in all material respects” in the opinion on summary financial information may be confusing when it is the audited financial statements that, if anything, provide fair presentation. Accordingly, the IAASB considered that this form of opinion may not be appropriate.
16. The IAASB proposed that the auditor express an opinion whether the summary financial information is an appropriate summary of the audited financial statements from which it is derived, in accordance with the specified established criteria or the basis described.
17. Eighteen respondents (AC (UK), ACCA, AICPA, APB, AUASB, CICA, CIPFA, CPA AU, DTT, GT, HKICPA, ICAEW, ICAI, ICAS, IDW, KPMG, NIVRA, PwC) did not

¹ In accordance with the revised standards and guidance, the auditor's procedures include an evaluation whether the summary financial information contains the information necessary to avoid being misleading in the circumstances. The findings of this evaluation are to be reflected in the auditor's opinion.

agree with the proposed form of opinion. Some preferred the existing form of opinion, i.e., “consistent, in all material respects.” Comments included the following:

- The existing form of opinion is familiar, clearer and more easily understood. The change of wording would represent an unnecessary change to what is established practice operating without undue difficulty in many jurisdictions.
- The reference to an “appropriate summary” in the auditor’s opinion is ambiguous. It is not clear whether the opinion is in reference to the summarization of the audited financial statements (the activity) or the summary financial information itself (the content). Although KPMG was of the view that the auditor should provide an opinion on the activity and not the content, PwC did not believe that the auditor is in a position to comment on the appropriateness of either the summarization process or the summary financial information.
- It is not clear whether “appropriate summary” will lead to more or less work than, say, the use of “consistent, in all material respects.” To some, “appropriate summary” implied more work than “consistent, in all material respects,” whereas the last sentence of ED-ISA 800.16² implies “consistent, in all material respects” may be more work.
- An “appropriate summary” is further removed from the audited financial statements from which summary financial information is derived than “consistent, in all material respects,” with them. The proposed form of opinion would require a greater level of subjective judgment on the part of the auditor, and would therefore be open to much wider interpretation than “consistency, in all material respects.”

18. Comments on phrases included the following:

- “In our opinion, the information set forth in the accompanying summary financial information is fairly stated, in all material respects, in relation to the audited financial statements from which it is derived.” (AICPA)
- The phrase “fairly summarized” reflects the fact that summary financial information is the result of the exercise of care and judgment in critical areas, such as the making of estimates and approximations, and their precision cannot be absolute. (CICA)
- If there are suitable established criteria, the auditor should report that the summary financial information is fairly stated (or summarized) in accordance with the criteria. (GT)
- In the case of established criteria, the opinion paragraph should state that the “summary financial information of the audited financial statements of the Company is presented in accordance with [the applied criteria].” In the absence of established criteria, the auditor’s opinion should state that the summary financial information

² ED-ISA 800.16 reads as follows: “In some jurisdictions, law or regulation governing reporting on summary financial statements may prescribe wording for the opinion that is different from that described in paragraph 14. Although the auditor may be obliged to use the prescribed wording, the auditor’s procedures described in paragraph 13 remain the same, with the addition of any further procedures necessary to enable the auditor to express the prescribed opinion.”

has been extracted from the company's audited financial statements with no reference to criteria. (KPMG)

- The auditor's opinion should be whether the summary financial information is consistent, in all material respects, with the audited financial statements from which it is derived. If the summary financial information has been prepared in accordance with regulatory or other requirements specifying the information that should be contained therein, the auditor could also opine on whether the summary financial information has been prepared in accordance with those requirements. (PwC and HKICPA)
19. NIVRA agreed with the proposed form of opinion on summary financial information only in those situations where the auditor has suitable criteria for preparing and presenting summary financial information. In those situations where there are no criteria, the objective of the engagement can only be to assess the consistency with the audited financial statements from which it is derived, and the opinion needs to be formulated accordingly.
 20. IDW agreed with the proposed form of opinion for those summarization frameworks that involve the application of judgment. However, in those cases where the summarization framework reduces the summarization to a purely mechanical exercise (e.g., a compliance summarization framework), IDW was of the view that words such as “in compliance with the summarization framework” might be more appropriate.
 21. Five respondents (ACCA, APB, FEE, ICAEW, ICAS) requested the IAASB to allow explicitly for exceptions on the wording of the auditor's report on summary financial information derived from audited financial statements. This would enable jurisdictions with legislation or regulations differing from ED-ISA 800 to continue to comply with their national law or regulation. Allowing such flexibility is also necessary in order to avoid the introduction of an ISA giving rise to, at least temporary, “plusses” and “carve-outs” in the Member States of the European Union, following endorsement of the ISAs by the European Commission.

Task Force's Recommendation

22. The Task Force debated the comments and suggested phrases in the light of the IAASB's decisions at the time of approving the exposure draft. The majority of the Task Force members are of the view that the comments could be addressed by an opinion in the following form:
 - Where established criteria exist: “In our opinion, the summary financial statements derived from the audited financial statements of ABC Company for the year ended December 31, 20X4 are prepared and presented in accordance with [describe established criteria].”
 - Where established criteria do not exist: “In our opinion, the summary financial statements derived from the audited financial statements of ABC Company for the year ended December 31, 20X4 are prepared and presented on the basis described in Note x.”

In addition, the proposed revised ISA provide for circumstances where national law or regulation governing reporting on summary financial information prescribe wording for the opinion that is different from that described above. See paragraph 16 of the proposed revised ISA (Agenda Item X-B).

23. Some Task Force members are of the view that, if the applied criteria meets the description of a fair presentation framework proposed for inclusion in ISA 200, "Objective and General Principles Governing an Audit of Financial Statements" (as part of the project to finalize proposed ISA 701), the phrase "is presented fairly in accordance with the applied criteria" should be permitted. This necessitates a clearer distinction between criteria that incorporate the notion that the summary financial information does not "misrepresent" the audited financial statements from which it is derived (hence the reference to "fair") and so-called "compliance" criteria for which a higher level "misleading test" applies. The Task Force members who do not support this view believe that the argument is too theoretical in the context of auditors' reports on summary financial information. It is not practical to expect the auditor to distinguish between criteria that achieve fair presentation and compliance criteria, taking into account that established criteria may not exist in the majority of cases and, further, that the summarized nature of the financial information renders it too remote from the notion of fair presentation.

Matter(s) for Consideration by the IAASB:

IAASB members are asked for their views with regard to the form of opinion on summary financial information.

CASES WHERE THE UNDERLYING AUDITED FINANCIAL STATEMENTS ARE NOT MADE AVAILABLE

24. AICPA supported the requirement in ED-ISA 800.6(c) that the auditor should confirm that the audited financial statements from which the summary financial information is derived, and the related auditor's report, will be available to the intended users of the summary financial information, unless law or regulation provides otherwise. It also supported the requirement in ED-ISA 800.13(b) that the auditor should evaluate whether the summary financial information clearly describe from whom or where the audited financial statements are available when the summary financial information is not accompanied by the audited financial statements from which it is derived. In addition, AICPA suggested that:
- Where such information is not provided in the summary financial information, it be included in the auditor's report.
 - When, because law or regulation so provide, the audited financial statements are not available to the intended users, the summary financial information clearly describe in accordance with which law or regulation the audited financial statements are not required to be made available to the intended users. Where such disclosure is not

made in the summary financial information, the information should be included in the auditor's report.

25. GT had significant reservations about allowing private companies, particularly those whose annual financial statements are not publicly available, to present summary financial information. It believed that, to understand summary financial information, the intended users need to have access to the audited financial statements, including the footnotes, from which it is derived. This can be accomplished by presenting the summarized data in a document that provides the audited financial statements, or if the audited financial statements are publicly available through a regulatory regime. If neither of these conditions exist, it is questioned how the auditor will ensure the continued availability of the audited financial statements so that the intended users can understand the summary financial information in context. Even if the law provides that the audited financial statements from which the summary financial information is derived need not be made available to the intended users of the summary financial information, the auditor should consider whether the absence of such information causes the auditor to be associated with misleading information.
26. KPMG was of the view that the underlying audited financial statements and related auditor's report should be made available to intended users under all circumstances, even when law or regulation establishes summarization criteria and states that the underlying audited financial statements need not be made available.

Task Force's Recommendation

27. The Task Force concluded that, based on the legal environment in some jurisdictions (which provides that the audited financial statements from which the summary financial information is derived need not to be made available to the intended users of the summary financial information), it is not possible to limit acceptance of engagements to report on summary financial information to those where the audited financial statements from which it is derived will be available to the intended users of the summary financial information.
28. However, the Task Force recommends that acceptance of an engagement under such circumstances be permitted only when national law or regulation *explicitly* provides that the audited financial statements from which the summary financial information is derived need not be made available to the intended users of the summary financial information (see paragraphs 12 of the proposed revised ISA (Agenda Item X-B)).
29. The Task Force also recommends that, in the circumstances described in paragraph 28 above, the summary financial information clearly describes the national law or regulation in accordance with which the audited financial statements do not have to be made available to the intended users of the summary financial information (see paragraphs 11(b), 14(b)(ii) and 24-25 of the proposed revised ISA (Agenda Item X-B)).

Matter(s) for Consideration by the IAASB:
--

Does the IAASB agree with the Task Force's conclusion and recommendations?
--

Appendix

Respondents List – ED-ISAs 701 and 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 Organiz ation	4
ACAG	Australasian Council of Auditors-General	Government Organiz ation	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 Organiz ation	16
GT	Grant Thornton International	Firm	17
IDW	Institut der Wirtschaftsprüfer	MB	18
ICPAC	The Institute of Certified Public 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 Bedrijsrevisoren (Koninklijk Instituut) / Institut des Reviseurs 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