



International Federation of Accountants

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Agenda Item

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Committee: IAASB
Meeting Location: London
Meeting Date: December 4-8, 2006

Special Considerations When Reporting on Summary Financial Statements

Objectives of Agenda Item

To review and approve the proposed close off document of ISA 805, “Special Considerations When Reporting on Summary Financial Statements.”

Task Force

Members of the Task Force are:

- Sukanta Dutt Chair and IAASB Member
- John Archambault Former IAASB Member
(Supported by Technical Advisor Susan Jones)
- Josef Ferlings IAASB Member (Supported by Technical Advisor, Wolf Boehm)
- Jonas Hällström Non-IAASB Member – INTOSAI
- John Kelly Non-IAASB Member – South Africa
- Sylvia Smith Technical Advisor to IAASB Member

Activities since Last IAASB Discussions

The IAASB conducted a first read of the proposed close off document of ISA 805 at its July 2006 meeting. (An extract of the minutes of that meeting is included as Agenda Item 3-C). The Task Force has considered the IAASB’s comments and revised the proposed close off document accordingly.

Matters for Consideration by the IAASB

Title of the Proposed ISA

The Task Force proposes that the title of the ISA be changed to “Special Considerations When Reporting on Summary Financial Statements.” This is in line with the title of ISA 800, “Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement,” and indicates that the proposed ISA is not limited to matters relating to the auditor’s report on summary financial statements.

Does the IAASB agree with the Task Force’s proposal?

Criteria for Preparing and Presenting Summary Financial Statements

IAASB staff requested national standard setters to provide information about the criteria used in their jurisdictions for preparing and presenting summary financial statements, as well as examples of summary financial statements and related auditors' reports. Responses were received from Australia, Canada, Germany, Hong Kong, Japan, New Zealand, The Netherlands, South Africa and the United States. The responses varied in the level of detail provided.

The information confirmed that in some jurisdictions established criteria exist, while in others they do not exist. In jurisdictions where established criteria exist, they may be established in an accounting standard (e.g., Australia, New Zealand) or in law, regulation, or securities exchange listings requirements (Germany, Hong Kong, South Africa). In the case of Canada, the criteria are established in an assurance guideline issued by the Canadian Institute of Chartered Accountants. Where established criteria do not exist, the example summary financial statements, as well as the auditors' reports, did not refer to criteria (or a stated basis for preparing and presenting summary financial statements).

The Task Force continues to propose that the ISA provides for circumstances where established criteria exist, as well as circumstances where they do not exist. In line with the Assurance Framework, where established criteria do not exist, the summary financial statements should be prepared in accordance with a stated basis for preparing and presenting summary financial statements.

Recognizing that management might not develop criteria for preparing and presenting summary financial statements, the Task Force proposes that paragraph 10 of the proposed ISA be amended to indicate that, when established criteria do not exist, the auditor discusses with management the suitability of management's basis for preparing and presenting the summary financial statements and the disclosure of such basis. A suitable basis will result in summary financial statements that meet the description in paragraph 10(a)-(d). Paragraph 10(a)-(d) could be used as the basis for the auditor's discussion with management.

In line with the Assurance Framework, the Task Force also proposes that the summary financial statements describe the stated basis. An example of such a description is provided in the footnotes to the illustrative auditors' reports in the Appendix.

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

Cases Where the Audited Financial Statements are Not Made Available

The Task Force reconsidered the proposal that, where law or regulation explicitly provides that the audited financial statements from which the summary financial statements are derived need not be made available to the intended users of the summary financial statements, the summary financial statements clearly describe that law or regulation (see paragraphs 10(b), 11 and 13(b) of the proposed ISA). When the summary financial statements do not contain such a description, the auditor considers the effect of the omission in accordance with paragraphs 24 and 25 of the proposed ISA.

Because summary financial statements by their nature are expected to contain only limited disclosure, there is a risk that they may not contain the information necessary so as not to be misleading in the circumstances. For this reason, the Task Force is strongly of the view that the summary financial statements should either state from whom or where the audited financial statements are available or describe the law or regulation that specifies that the audited financial

statements need not be made available to the intended users of the summary financial statements. The Task Force therefore proposes not to amend the requirements and guidance as proposed at the July 2006 IAASB meeting.

Does the IAASB agree with the Task Force?

Other Matters

- The Task Force has attempted to simplify the requirements and guidance for engagement acceptance in response to the IAASB's comments. See paragraphs 5-7 of the proposed ISA.
- The Task Force has amended paragraph 14 of the proposed ISA to indicate that the procedures in paragraph 13 may not be a complete list.
- The Task Force has retained the reference to "recalculate" in paragraphs 10(c), 13(d) and elsewhere in the proposed ISA, because management may aggregate certain line items of the audited financial statements for purposes of the summary financial statements. The Task Force did not consider it necessary to define the term "recalculate," as it is described in ISA 500, "Audit Evidence" and is generally understood.
- The Task Force has attempted to simplify the elements of the auditor's report in response to the IAASB's comments. See paragraph 17 of the proposed ISA.
- The Task Force amended the guidance on restricting the distribution or use of the auditor's report on the summary financial statements to avoid confusion. Paragraph 26 of the proposed ISA now requires the auditor to consider whether to restrict distribution or use of the auditor's report on summary financial statements when the distribution or use of the auditor's report on the audited financial statements from which the summary financial statements are derived is restricted in accordance with ISA 800.
- The Task Force proposes to strengthen the requirements and guidance on auditor association. Paragraph 5(b) of the proposed ISA now requires management to confirm that, where any document containing the summary financial statements refers to the auditor, such reference would not be misleading. Paragraph 32 contains a new requirement as follows: "Where the auditor has reported on summary financial statements and an entity states that fact in a document containing the summary financial statements but does not include the related auditor's report, the auditor should be satisfied that such statement is not misleading ..." This is to address circumstances where the auditor has expressed a modified opinion on the summary financial statements that is not clear from the statement. If the statement is misleading, the auditor should request management to change it so as not to be misleading or to include the auditor's report on the summary financial statements in the document.
- The Task Force has also changed the references to "summary financial information" to "summary financial statements." This is in line with ISA 800 and the related conforming amendments; in particular, those to ISA 200. To simplify the mark-up version, these changes and other minor editorial changes are not shown in mark up in Agenda Item 3-B.

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

Material Presented

Agenda Item 3-A
(Pages 2845 – 2866)

Proposed ISA 805, "Special Considerations When Reporting on Summary Financial Statements" (CLEAN)

Agenda Item 3-B Proposed ISA 805, “Special Considerations When Reporting on
(Pages 2867 – 2888) Summary Financial Statements” (MARK-UP from July 2006 IAASB
Draft)

Agenda Item 3-C Extract from the minutes of the July 2006 IAASB meeting
(Pages 2889 – 2890)

AGENDA ITEM 3-A WILL BE USED FOR PURPOSES OF THE DISCUSSION AT THE
MEETING.

Action Requested

The IAASB is asked to consider the matters highlighted in this paper and to review and approve the close off version of ISA 805.