

Special Consideration When Reporting on Summary Financial Statements—Extract from the Minutes of the July 10-13, 2006 IAASB Meeting

6. The Auditor's Report on Summary Financial Statements Derived from Audited Financial Statements

Mr. Dutt led the discussion of the summary of significant comments on the exposure draft of proposed ISA 800, "The Independent Auditor's Report on Summary Audited Financial Statements" and the task force's recommendations. The IAASB also reviewed a revised proposed ISA 800.

The IAASB debated whether the requirements and guidance for reports on summary financial information should be retained within the ISAs. A small number of members did not agree with the task force that an engagement to report on summary financial information is in fact an audit because it is based on the audit of the financial statements from which it is derived. They referred to the fact that the report does not contain an audit opinion. They were also concerned that users may conclude that the auditor has obtained a higher level of assurance than what in reality is the case. Mr. Kellas was of the view that the classification of the requirements and guidance within IAASB's standards would not affect the users of the report. Of importance is the wording in the report. The nature of the engagement should be clarified in the report.

The IAASB debated the task force's recommendation that, where established criteria for preparing summary financial information do not exist, the auditor should accept the engagement only when management's criteria for preparing summary financial information result in the summary financial information that meets the conditions of paragraph 11 of the revised proposed ISA. This includes disclosure of management's criteria in the summary financial information. Some members were of the view that management would not develop criteria for preparing summary financial information and that paragraph 11 in fact sets out the criteria to be applied by management when established criteria do not exist. Other members were of the view that, according to the International Framework for Assurance Engagements, where established criteria do not exist, management has to develop such criteria and that the criteria have to be available to the intended users. Mr. Dutt clarified that paragraph 11 is the basis on which the auditor would evaluate the criteria (established or otherwise) applied by management in preparing the summary financial information. They were not intended to be management's criteria – the IAASB could not take the role of the accounting standard setter. The task force was asked to consider examples of summary financial information and related reports issued in various jurisdictions in considering this point further.

The IAASB debated the task force's recommendation with regard to the form of opinion on summary financial information. Two alternatives were presented during the meeting: (1) "... the summary financial statements derived from the audited financial statements are *a fair summary* of those financial statements in accordance with the criteria set out in Note x;" and (2) "... the summary financial statements derived from the audited financial statements in accordance with the criteria set out in Note x are *consistent* with those financial statements." A small majority of members preferred alternative (1). One member noted that it was not possible to make a decision

until the outcome of the debate on management's criteria is known. It was agreed that the revised proposed ISA should reflect alternative (1).

Mr. Kellas questioned whether it is necessary to disclose in the summary financial information the law or regulation in accordance with which 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. This seemed to him to be the IAASB seeking to override national law and regulation, and promoting the view that it would never be reasonable to use the summary statements on their own. There may be perfectly good reasons why summary statements are sufficient for certain purposes, but it would be important for users to understand that they were not the same as full financial statements. Accordingly, it is important for the report to state clearly that the summary financial information is not a substitute for the audited financial statements.

In addition to the above, other comments on the revised proposed ISA included the following:

- Concern was expressed about the requirements and guidance for engagement acceptance. They were considered to be overly complicated for this type of engagement. They overemphasized the criteria for preparing summary financial information, while such criteria may not exist.
- It was noted that the procedures to be performed by the auditor as prescribed in paragraph 14 may be interpreted as a complete list of procedures, while the auditor may also perform other procedures.
- With regard to the auditor's procedures, the meaning of the word "recalculate" was questioned. The task force was asked to consider clarifying its meaning.
- It was suggested that the auditor's report might be simplified. It was agreed that the requirement to identify management should be deleted. It was also agreed to delete the reference to the planning and performing of the engagement in the statement of the auditor's responsibility. It was questioned why the statement of the auditor's responsibility does not include a reference to ethical requirements.
- The task force was asked to consider deleting the guidance on restriction on distribution. Some members found the guidance confusing.
- Referring to the requirements and guidance on auditor association, it was questioned whether the auditor should allow use of the auditor's name or reference to the fact that the summary financial information is derived from the audited financial statements when the auditor has not reported on the summary financial information. A member was of the view that any reference to the auditor, irrespective of the circumstances, is misleading when the auditor has not reported on the summary financial information.

The task force was asked to take account of the IAASB's comments and to submit a close off document for approval at the December 2006 meeting.