

**Mark-up based on September 22 IAASB Draft****Proposed Amended ISA 200, “Objective and General Principles Governing an Audit of Financial Statements”****Introduction**

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the objective and general principles governing an audit of financial statements.
- 1a. The ISAs are written in the context of an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information.<sup>1</sup> For purposes of the ISAs, the term “financial statements” can refer to a complete set of financial statements, or a single financial statement.<sup>2</sup>

**Objective of an Audit of Financial Statements**

[The Special Reports Task Force is not proposing changes to paragraphs 2 and 3, which are considered as part of the Clarity project.]

**Ethical Requirements Relating to an Audit of Financial Statements**

[No changes are proposed to paragraphs 4-5. As a result, they have not been reproduced here.]

**Conduct of an Audit of Financial Statements**

[No changes are proposed to paragraphs 6-9. As a result, they have not been reproduced here.]

**Scope of an Audit of Financial Statements**

[No changes are proposed to paragraphs 10-14. As a result, they have not been reproduced here.]

**Professional Skepticism**

[No changes are proposed to paragraphs 15-16. As a result, they have not been reproduced here.]

**Reasonable Assurance**

[No changes are proposed to paragraphs 17-21. As a result, they have not been reproduced here.]

**Audit Risk and Materiality**

[No changes are proposed to paragraphs 22-32. As a result, they have not been reproduced here.]

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<sup>1</sup> Historical financial information is information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

<sup>2</sup> A financial statement is a structured representation of historical financial information, which ordinarily includes related explanatory notes, 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. Examples of a single financial statement are listed in the Appendix to this ISA.

## Responsibility for the Financial Statements

33. [Management’s responsibility for the financial statements (which includes establishing a control environment and designing, implementing and maintaining controls), as well as the oversight responsibility of those charged with governance, are being considered by the Written Representations Task Force and the Clarity Task Force. The Special Reports Task Force therefore is not proposing changes to paragraph 33, but instead will accept the proposals of the other two Task Forces.]
34. [Moved elsewhere.]
35. [Moved elsewhere.]
36. Management is responsible for identifying the financial reporting framework to be adopted in preparing and presenting the financial statements (“applicable financial reporting framework”), in the context of any relevant law or regulation. Management is also responsible for preparing and presenting the financial statements in accordance with that framework, and adequately describing that framework in the financial statements. Management’s responsibility for preparing and presenting the financial statements in accordance with the applicable financial reporting framework includes:
- Designing, implementing and maintaining internal control relevant to preparing and presenting financial statements that are free from material misstatement, whether due to fraud or error (see paragraph 33);
  - Selecting and applying appropriate accounting policies; and
  - Making accounting estimates that are reasonable in the circumstances.
- 36a. ~~The applicable~~ The financial statements may be prepared in accordance with a financial reporting framework ~~may be~~ designed to meet the common financial information needs of a wide range of users (i.e., “general purpose financial statements” prepared in accordance with a “general purpose framework”) or to meet the financial information needs of specific users (i.e., “special purpose financial statements” prepared in accordance with a “special purpose framework”).
- 36b. The applicable financial reporting framework often encompasses financial reporting standards established by an authorized or recognized standards setting organization, or legislative or regulatory requirements. In some cases the financial reporting framework may encompass both financial reporting standards established by an authorized or recognized standards setting organization and legislative or regulatory requirements. Other sources may provide direction on the application of the applicable financial reporting framework. In some cases, the applicable financial reporting framework may encompass such other sources, or may even consist only of such sources. Such other sources may include:
- The effect of the legal and ethical environment, including statutes, regulations, court decisions, and professional ethical obligations in relation to accounting matters;
  - Published accounting interpretations of varying authority issued by standards setting, professional or regulatory organizations;

- Published views of varying authority on emerging accounting issues issued by standards setting, professional or regulatory organizations;
- General and industry practices widely recognized and prevalent; and
- Accounting literature.

Where conflicts exist between the financial reporting framework and the sources from which direction on its application may be obtained, or amongst the sources that encompass the financial reporting framework, the source with the highest authority prevails.

36c. The requirements of the applicable financial reporting framework determine the form and content of the financial statements. 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.

36d. Some financial reporting frameworks:

- (a) Acknowledge explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond the specific requirements of the framework; or
- (b) Acknowledge explicitly that, in extremely rare circumstances, it may be necessary for management to depart from a specific requirement of the framework to achieve fair presentation of the financial statements.

For purposes of the ISAs, such frameworks are referred to as “fair presentation frameworks.” Financial reporting frameworks that encompass primarily the financial reporting standards established by an organization that is authorized or recognized to promulgate standards to be used by entities for preparing and presenting general purpose financial statements ~~(see ISA 210, “Terms of Audit Engagements”)~~ are often designed to achieve fair presentation, for example, International Financial Reporting Standards (IFRSs).

36e. Other financial reporting frameworks only require compliance with the specific requirements of the framework, that is, the acknowledgements in paragraph 36d do not exist. For purposes of the ISAs, such frameworks are referred to as “compliance frameworks.”

36f. The requirements of the applicable financial reporting framework also determine what constitutes a complete set of financial statements. In the case of many frameworks, financial statements are intended to provide information about the financial position, financial performance and cash flows of an entity. For such frameworks, a complete set of financial statements would include a balance sheet; an income statement; a statement of changes in equity; a cash flow statement; and related explanatory notes, comprising a summary of significant accounting policies and other explanatory notes. For some other financial reporting frameworks, a single financial statement and the related explanatory notes might constitute a complete set of financial statements. For example, the International Public Sector Accounting Standard (IPSAS), “Financial Reporting Under the

Cash Basis of Accounting” states that the primary financial statement is a statement of cash receipts and payments when a public sector entity prepares and presents its financial statements in accordance with that IPSAS.

- 36g. ISA 210 contains standards and guidance on determining the acceptability of the applicable financial reporting framework. ISA 800, “Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement” contains additional considerations for special purpose frameworks.

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48. [Moved elsewhere.]

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51. [Deleted]

### **Effective Date**

52. This ISA is effective for audits of financial statements for periods beginning on or after [date].

### **Public Sector Perspective**

[No changes are proposed to the PSP. The PSP is also not necessary to provide context to the proposed changes. As a result, it has not been reproduced here.]

## Appendix 1

### Examples of a Single Financial Statement

~~Examples of a single financial statement include the following:~~

- Balance sheet and related explanatory notes.
- Statement of income or statement of operations and related explanatory notes.
- Statement of retained earnings and related explanatory notes.
- Statement of cash flows and related explanatory notes.
- Statement of changes in owners' equity and related explanatory notes.
- Statement of assets and liabilities that does not include owners' equity and related explanatory notes.
- Statement of revenue and expenses and related explanatory notes.
- Statement of operations by product lines and related explanatory notes.
- Statement of cash receipts and disbursements and related explanatory notes.

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