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Agenda Item

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Committee: IAASB

Meeting Location: New York

Meeting Date: February 13-16, 2007

ISA 800 (Revised and Redrafted), “Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement”

and

ISA 805 (Redrafted), “Engagements to Report on Summary Financial Statements”

Objectives of Agenda Item

1. To conduct a first read of proposed ISA 800 (Revised and Redrafted) and proposed ISA 805 (Redrafted).

ISA 560 Redrafting Task Force Members

2. The Task Force members are Sylvia Smith (Chair) and Susan Jones.

Activities of the Task Force

3. The Task Force used the close off documents of ISA 800 (Revised) (approved October 2006) and ISA 805 (approved December 2006) as bases for preparing the proposed redrafted ISAs.
4. The proposed redrafted ISAs were reviewed by a small team designated by the Financial Audit Guidelines Subcommittee of INTOSAI. The team concluded that it is not necessary to include public sector audit considerations in the proposed redrafted ISAs.

Matters for IAASB Consideration

PROPOSED ISA 800 (REVISED AND REDRAFTED)

Objective

5. ISA 800 (Revised) (see close off document) does not have an overall principle, as is the case with other extant ISAs. The draft ISA Objectives as of December 2006 also does not include an objective for ISA 800 (Revised). The Task Force debated whether to develop an objective for the proposed redrafted ISA or simply to indicate that the

objectives of the other ISAs apply in the case of an audit of special purpose financial statements and specific elements, accounts or items of a financial statement.

6. The Task Force concluded that the proposed redrafted ISA should include an objective. The objective of the auditor is to obtain sufficient appropriate audit evidence to express an opinion whether the special purpose financial statements / specific element, account or item of a financial statement are / is prepared, in all material respects, in accordance with the applicable financial reporting framework. The auditor achieves this objective through applying those ISAs relevant to the audit and by addressing special considerations that are relevant to the appropriate acceptance, and planning and performance of and reporting on the audit. In the case of an audit of a specific element, account or item of a financial statement, the auditor adapts the relevant ISAs as necessary in the circumstances.
7. The above is reflected in paragraphs 5 and 6 of the proposed redrafted ISA.

Action Requested

Does the IAASB agree with the proposed objective of proposed ISA 800 (Revised and Redrafted)?

Requirements vs. Application Material

8. The Task Force has included paragraphs 9-13 of ISA 800 (Revised) (see close off document) in the application material of the proposed redrafted ISA as they are based on / refer to requirements and guidance in ISA 210 (amended as a result of ISA 800 (Revised)) (“Amended ISA 210”). See paragraphs A3-A5 of the proposed redrafted ISA. The Task Force realizes that it could be argued that the text provides important interpretations of the requirements and guidance in Amended ISA 210 in the context of an audit of special purpose financial statements and forms the basis of the requirement in paragraph 9 of the proposed redrafted ISA, and therefore should be included as essential guidance with that requirement.

Action Requested

Does the IAASB agree with the Task Force’s proposal to include the text in the application material?

PROPOSED ISA 805 (REDRAFTED)

Summary Financial Statements in Documents Relating to Securities Offered to the Public

9. Paragraph 5(b) of ISA 805 (see close off document) requires the auditor, before accepting an engagement to report on summary financial statements, to request management to confirm that, where any document containing the summary financial statements indicates that the auditor has reported on the summary financial statements, the report on the summary financial statements will also be included in the document.

10. In accordance with paragraph 32 of ISA 805 (see close off document), 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 request management to include the auditor's report on the summary financial statements in the document. If management does not do so, the auditor should consider what other actions might be appropriate.
11. When the IAASB considered the close off document of ISA 805, a member indicated that the requirements referred to in paragraphs 9 and 10 of this paper may be problematic in the context of summary financial statements in documents relating to securities offered to the public. Recognizing that the ISA has not been drafted specifically with such documents in mind, the IAASB agreed that:
 - (a) Paragraph 1 of ISA 805 should indicate that the requirements and guidance in the ISA do not apply to auditor's report on summary financial statements in documents relating to securities offered to the public.
 - (b) The Task Force responsible for redrafting ISA 805 (Revised) should consider whether the proposed description of such documents is appropriate.
 - (c) The explanatory memorandum accompanying the exposure draft of the proposed redrafted ISA should ask respondents to identify any unintended consequences if the ISA, as currently drafted, is to be applied to auditors' reports on summary financial statements included in documents relating to securities offered to the public.
12. The Task Force reviewed and revised the proposed description in paragraph 1 of ISA 805 (see close off document). See paragraph 14 below.
13. The Task Force also debated the appropriateness of :
 - (a) Not applying all the requirements and guidance in the ISA to auditors' reports on summary financial statements in documents relating to securities offered to the public, as it was only the requirements referred to in paragraphs 9 and 10 of this paper that appeared to be problematic; and
 - (b) Scoping out all auditors' reports on summary financial statements in documents relating to securities offered to the public, as the requirements referred to in paragraphs 9 and 10 of this paper may not be problematic in all such circumstances and in all jurisdictions.
14. To at least partially address the above concerns, the Task Force proposes that paragraph 1 of ISA 805 be expanded to indicate that, even though auditors' reports on summary financial statements in documents relating to securities offered to the public are scoped out of the ISA, the requirements and guidance in the ISA may nevertheless be useful in the described circumstances.
15. The Task Force, however, also identified two alternative approaches:
 - (a) Leave paragraph 1 of the proposed redrafted ISA as is, but reconsider the matter based on the responses to the proposed question in the explanatory memorandum.

- (b) Delete the relevant sentence in paragraph 1 of the proposed redrafted ISA and insert a paragraph after paragraph 6 as follows: “In some jurisdictions, law, regulation or practice may provide that the report on summary financial statements need not be included in a document relating to securities offered to the public that contains the summary financial statements and that indicates that the auditor has reported on the summary financial statements. Where this is the case, the requirements in paragraphs 6 and 29 do not apply.” One Task Force member strongly prefers this approach.

Action Requested

The IAASB is asked to consider the matter described in paragraphs 9-14.

Requirements vs. Application Material

16. The Task Force has included paragraphs 11 and 12 of ISA 805 (see close off document) in the application material of the proposed redrafted ISA (see paragraphs A5-A6). Paragraph 11 of ISA 805 refers to Amended ISA 210 and paragraph 12 of ISA 805 assists the auditor in implementing the requirement in paragraph 9 of ISA 805, i.e., that the auditor should accept an engagement to report on summary financial statements only when the auditor concludes that the applied criteria are acceptable in the circumstances ... In doing so, the Task Force found it necessary to delete the following present tense sentence from paragraph 12 of ISA 805: “The auditor determines whether such criteria are acceptable in the circumstances.”
17. The Task Force realizes that it could be argued that the text provides important interpretations of the requirements and guidance in Amended ISA 210 in the context of engagements to report on summary financial statements and forms the basis of the requirement in paragraph 10 of proposed ISA 805 (Redrafted), and therefore should be included as essential guidance with that requirement.

Action Requested

Does the IAASB agree with the Task Force’s proposal to include the text in the application material?

Material Presented

Agenda Item 2-A (Pages 7 – 28)	Proposed ISA 800 (Revised and Redrafted)
Agenda Item 2-B (Pages 29 – 54)	Proposed ISA 800 (Revised and Redrafted): Mapping Documents
Agenda Item 2-C (Pages 55 – 78)	Proposed ISA 805 (Redrafted)
Agenda Item 2-D (Pages 79 – 112)	Proposed ISA 805 (Redrafted): Mapping Documents
Agenda Item 2-E (Pages 113 – 170)	Close Off Document of ISA 800 (Revised) (Approved October 2006) – FOR REFERENCE PURPOSES ONLY.
Agenda Item 2-F (Pages 171 – 192)	Close Off Document of ISA 805 (Approved December 2006) – FOR REFERENCE PURPOSES ONLY.

Action Requested

18. The IAASB is asked to consider the matters highlighted above and to review proposed ISA 800 (Revised and Redrafted) and ISA 805 (Redrafted).

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