International Federation of Accountants
545 Fifth Avenue, 14th Floor, New York, NY 10017 USA
Tel +1 (212) 286-9344 Fax +1 (212) 286-9570 www.ifac.org

**Agenda Item**

**8**

**Committee:** IAASB

**Meeting Location:** Warsaw

**Meeting Date:** July 9-13, 2007

# Special Reports

## Objectives of Agenda Item

1. To approve the following to be issued as exposure drafts:
   - Proposed ISA 800 (Revised and Redrafted), "Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement;" and
   - Proposed ISA 805 (Revised and Redrafted), "Engagements to Report on Summary Financial Statements."

## Special Reports 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 approved "close off" documents of ISA 800 (Revised) and ISA 805 (Revised) as the basis for preparing the proposed redrafted ISAs.

4. A representative of the Financial Audit Guidelines Subcommittee of INTOSAI was a member of the task force that developed the "close off" documents.

5. The IAASB conducted a first read of the proposed redrafted ISAs in February. Agenda Items 8-A and 8-B reflect the changes based on the Task Force's consideration of the IAASB's comments, as well as recommendations of the Plain English Expert.

## Matters for IAASB Consideration

PROPOSED ISA 800 (REVISED AND REDRAFTED)

*Objective*

6. The Task Force proposed the following revised objective at the February meeting: "The objective of the auditor is to apply the other ISAs by (a) addressing the special considerations that are relevant to the appropriate acceptance, and planning and performance of, and reporting on the audit of special purpose financial statements or an element, account or item of a financial statement, and (b) in the case of an audit of an

element, account or item of a financial statement, adapting the other ISAs as necessary in the circumstances."

7. The IAASB asked the Task Force to consider whether (b) was necessary, as proposed ISA 200 (Revised and Redrafted) deals with the adaptation of the ISAs.

8. Based on consideration of the matter, the Task Force proposes that paragraph 1 explain that the proposed redrafted ISA deals with special considerations, *including the adaptation of the ISAs*, in an audit of a specific element, account or item of a financial statement (see Agenda Item 8-B). In addition, the Task Force proposes that the objective be revised to read as follows: "The objective of the auditor is to apply the ISAs by addressing the special considerations that are relevant to the appropriate (a) acceptance of an engagement to audit special purpose financial statements or a specific element, account or item of a financial statement; and (b) planning and performing of, and reporting on, that audit." See paragraph 6 of Agenda Item 8-B

**Action Requested**

Does the IAASB agree with the proposed change to paragraph 1 and the proposed revised objective in paragraph 6 of Agenda Item 8-B?

*Financial Statements Prepared for a Specific Purpose*

9. The IAASB asked the Task Force to consider whether to clarify that financial statements prepared for a specific purpose in accordance with a general purpose financial reporting framework are deemed to be special purpose financial statements and, therefore, fall within the scope of proposed ISA 800 (Revised and Redrafted).

10. The Task Force is of the view that the circumstances described in paragraph 9 above is more likely to be the case where the financial reporting provisions of a contract provides for financial statements to be prepared in accordance with a general purpose framework. The Task Force therefore proposes the following new application material: "The financial reporting provisions of a contract may provide for the financial statements to be prepared and presented in accordance with a general purpose framework. In this case, the financial reporting framework is the financial reporting provisions of the contract and therefore is a special purpose framework." See paragraph A3 of Agenda Item 8-A.

**Action Requested**

Does the IAASB agree with the proposed new application material?

PROPOSED ISA 805 (REVISED AND REDRAFTED)

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

11. Paragraph 1 of the February IAASB draft stated that the proposed ISA does not apply when reporting on summary financial statements included in documents relating to securities offered to the public. The IAASB asked the Task Force to reconsider the appropriateness of including this type of exemption by following up with the jurisdiction

that initially raised the concern. Based on further discussions with a representative from that jurisdiction, the Task Force has concluded that such exemption is not necessary.

**Action Requested**

Does the IAASB agree with the deletion of the reference to documents relating to securities offered to the public in paragraph 1 of Agenda Item 8-B?

*Wording for the Auditor's Opinion Prescribed by Law or Regulation*

12. The February IAASB draft provided for the auditor to use an opinion prescribed by law or regulation subject to the auditor performing the procedures in paragraph 10 of Agenda Item 8-B and any additional procedures necessary to enable the auditor to express the prescribed opinion. However, when the wording prescribed by law or regulation was significantly different from that described in the proposed redrafted ISA, the auditor had to determine whether there may be a risk that the intended users of the summary financial statements might misunderstand the opinion. If the case, the auditor had to mitigate the risk of misunderstanding through appropriate explanation in the auditor's report.

13. The IAASB asked the Task Force to align the requirements described in paragraph 12 above with that in proposed ISA 210 (Redrafted), "Agreeing the Terms of Audit Engagements."

14. Paragraph 16 of Agenda Item 8-B now reads as follows: "In some cases, law or regulation may prescribe the wording of the opinion on summary financial statements in terms that are significantly different from the requirements of this ISA. In these circumstances, the auditor's procedures described in paragraph 10 shall remain the same. The auditor shall evaluate whether users of the summary financial statements might misunderstand the auditor's opinion and, if so, whether additional explanation in the auditor's report on the summary financial statements can mitigate possible misunderstanding. If the auditor concludes that additional explanation in the auditor's report on the summary financial statements cannot mitigate possible misunderstanding, the auditor shall not accept the audit engagement, unless prohibited by law or regulation from doing so. An engagement which the auditor is thereby required to accept is not an engagement conducted in accordance with this ISA."

15. Paragraph 16 of Agenda Item 8-B is aligned with proposed ISA 210 (Redrafted) except for the sentence "… the auditor's procedures described in paragraph 10 shall remain the same." The Task Force is of the view that the additional text is necessary to clarify that the procedures required in terms of the ISA are not affected by wording of the opinion required by law or regulation that may be different from the requirements of the ISA.

**Action Requested**

Does the IAASB agree with proposed paragraph 16 of Agenda Item 8-B?

Material Presented

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| Agenda Item 8-A (Pages 2125 - 2146) | Proposed ISA 800 (Revised and Redrafted) (MARK-UP BASED ON FEBRUARY IAASB DRAFT) |
| Agenda Item 8-B (Pages 2147 – 2172) | Proposed ISA 805 (Revised and Redrafted) (MARK-UP BASED ON FEBRUARY IAASB DRAFT) |
| Agenda Item 8-C (Pages 2173 – 2194) | Proposed ISA 800 (Revised and Redrafted) (CLEAN) |
| Agenda Item 8-D (Pages 2195 – 2218) | Proposed ISA 805 (Revised and Redrafted) (CLEAN) |
| Agenda Item 8-E (Pages 2219 – 2246) | Proposed ISA 800 (Revised and Redrafted): Mapping Documents |
| Agenda Item 8-F (Pages 2247 – 2284) | Proposed ISA 805 (Revised and Redrafted): Mapping Documents |

Action Requested

16. The IAASB is asked to approve proposed ISA 800 (Revised and Redrafted) and proposed ISA 805 (Revised and Redrafted) to be issued as exposure drafts.