Agenda Item 8-C

CLEAN

PROPOSED INTERNATIONAL STANDARD ON AUDITING 800

(REVISED AND REDRAFTED)

SPECIAL CONSIDERATIONS—AUDITS OF SPECIAL PURPOSE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT

(Effective for engagements for periods beginning on or after [date])*

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International Standard on Auditing (ISA) 800 (Revised and Redrafted), "Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement" should be read in the context of the "Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services," which sets out the authority of ISAs.

Introduction

Scope of this ISA

1. [Proposed] International Standard on Auditing (ISA) 200 (Revised and Redrafted), "Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing," explains that the ISAs are written in the context of financial statements and are to be adapted as necessary in the circumstances when applied` to audits of other historical financial information. This ISA deals with special considerations relevant to an audit of special purpose financial statements. It also deals with special considerations, including the adaptation of ISAs, relevant to an audit of a specific element, account or item of a financial statement. Examples of specific elements, accounts or items of a financial statement are listed in Appendix 1.

2. This ISA does not override the requirements of the other ISAs; nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

3. This ISA does not apply to the report of a component auditor, issued as a result of work performed on the financial information of a component at the request of a group auditor for purposes of the audit of the group financial statements (see [proposed] ISA 600 (Revised and Redrafted), "Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)").

4. [Proposed] ISA 705 (Revised and Redrafted), "Modifications to the Opinion in the Independent Auditor's Report" deals with circumstances that may result in a modified opinion, the type of modification required, and how the form and content of the auditor's report is affected in such circumstances. [Proposed] ISA 706 (Revised and Redrafted), "Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report" deals with circumstances when the auditor considers including an Emphasis of Matter paragraph or an Other Matter(s) paragraph in the auditor's report, and the form and placement of such paragraphs.

Effective Date

5. This ISA is effective for engagements for periods beginning on or after [date].[1]

Objective

6. 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.

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[1] This date will not be earlier than December 15, 2008.

Definitions

7. For purposes of the ISAs, the following terms have the meanings attributed below:

   (a) Special purpose financial statements – Financial statements prepared in accordance with a special purpose framework. (Ref: Para. A2)

   (b) Special purpose framework – A financial reporting framework designed to meet the financial information needs of specific users. (Ref: Para. A1-A2)

8. The term "financial statements" in this ISA can refer to a complete set of financial statements or a single financial statement, including related explanatory notes.[2] The term "specific element(s), account(s) or item(s) of a financial statement" should be understood to include related explanatory notes.

Requirements

Audits of Special Purpose Financial Statements

Considerations when Determining the Acceptability of the Applicable Financial Reporting Framework

9. To determine the acceptability of the financial reporting framework, the auditor shall obtain an understanding of the following circumstances of the engagement:

   (c) The purpose for which the financial statements are prepared;

   (d) The intended users; and

   (e) The steps taken by management to determine that the financial reporting framework is appropriate in the circumstances. (Ref: Para. A4-A8)

10. In the case of special purpose financial statements prepared in accordance with the provisions of a contract, the auditor shall also obtain an understanding of any significant interpretations of the contract that management made in preparing the financial information.[3]

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[2] The requirements of the applicable financial reporting framework determine the form and content of the financial statements and what constitutes a complete set of financial statements.

[3] An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the financial statements.

Considerations when Planning and Performing the Audit

11. The auditor shall apply the requirements of [proposed] ISA 200 (Revised and Redrafted) to an audit of special purpose financial statements. Application of some of the requirements of the ISAs may require special consideration by the auditor. (Ref: Para. A9-A12)

Forming an Opinion and Reporting Considerations

12. When forming an opinion and reporting on special purpose financial statements, the auditor shall apply the requirements in [proposed] ISA 700 (Redrafted), "The Independent Auditor's Report on General Purpose Financial Statements." Additional elements of the auditor's report on special purpose financial statements are set out in paragraphs 13-14 of this ISA. (Ref: Para. A13)

Description of the Applicable Financial Reporting Framework

13. The reference to the applicable financial reporting framework in the statement of management's responsibility in the auditor's report on special purpose financial statements shall:

    (a) Make clear the purpose for which the financial statements are prepared and, if necessary, the intended users, or refer to a note in the special purpose financial statements that contains that information; and

    (b) When management has a choice of financial reporting frameworks in preparing and presenting such financial statements, make reference to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances of the engagement.

Restriction on Use

14. The auditor's report on the special purpose financial statements shall include a statement that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements and related auditor's report may not be suitable for another purpose. The statement shall be included in a separate paragraph following the auditor's opinion and under the heading Other Matter – Restriction on Use. (Ref: Para. A14-A15)

Audits of Specific Elements, Accounts or Items of a Financial Statement

Considerations when Accepting the Engagement

15. The auditor shall apply the requirements of [proposed] ISA 200 (Revised and Redrafted) to an audit of a specific element, account or item of a financial statement (referred to as "element" in paragraphs 16-20), irrespective of whether the auditor is also engaged to audit the entity's financial statements. (Ref: Para. A16-A17)

16. As the ISAs are written in the context of financial statements, all the ISAs relevant to the audit of the element shall be adapted as necessary in the circumstances. (Ref: Para. A18, A20-A23)

17. When the auditor is not also engaged to audit the entity's financial statements, the auditor shall determine whether an audit of the element in accordance with ISAs is practicable. (Ref: Para. A19)

Reporting Considerations (Ref: Para. A24)

18. When the auditor undertakes an engagement to report on an element in conjunction with an engagement to audit the entity's financial statements, the auditor shall express a separate opinion for each engagement.

19. When the entity intends to publish an audited element together with its audited financial statements, the entity's presentation of the audited element should differentiate it sufficiently from the audited financial statements. The opinion on the element should also be differentiated sufficiently from the opinion on the financial statements. If the auditor concludes that the differentiation is insufficient, the auditor shall ask management to rectify the situation. The auditor shall not issue the auditor's report on the element until satisfied with the differentiation.

20. When the opinion in the auditor's report on an entity's financial statements is modified or that report includes an Emphasis of Matter paragraph or an Other Matter(s) paragraph, the auditor shall determine the effect that this may have on the auditor's report on an element. When deemed appropriate, the auditor shall modify the opinion in the auditor's report on the element, or include an Emphasis of Matter paragraph or an Other Matter(s) paragraph in that report, accordingly. (Ref: Para. A25-A26)

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Application and Other Explanatory Material

Audits of Special Purpose Financial Statements

Special Purpose Frameworks (Ref: Para. 7)

A1. Examples of special purpose frameworks are:

- A tax basis of accounting for a set of financial statements that accompany an entity's tax return;
- The cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors;
- The financial reporting provisions established by a regulator to meet that regulator's requirements; or
- The financial reporting provisions of a contract, such as a bond indenture or a loan agreement.

A2. Financial statements prepared and presented in accordance with a special purpose framework may be the only financial statements an entity prepares. In such circumstances, those financial statements are often used by users other than those for whom the financial reporting framework is designed. Despite the broad distribution of the financial statements

in those circumstances, the financial statements are still considered to be special purpose financial statements for purposes of the ISAs. The requirements in paragraphs 13-14 are designed to avoid misunderstandings about the purpose for which the financial statements are prepared.

A3. 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.

Considerations when Determining the Acceptability of the Applicable Financial Reporting Framework (Ref: Para. 9)

A4. [Proposed] ISA 210 (Redrafted), "Agreeing the Terms of Audit Engagements" requires the auditor to agree on and determine the acceptability of the applicable financial reporting framework. In the case of special purpose financial statements, the financial information needs of the intended users are a key factor in obtaining an understanding of the circumstances listed in paragraph 9(a)-(c).

A5. The applicable financial reporting framework may encompass the financial reporting standards established by an organization authorized or recognized to promulgate standards for special purpose financial statements. In that case, those standards will be presumed acceptable for that purpose if the organization follows an established and transparent process involving deliberation and consideration of the views of relevant stakeholders. In some jurisdictions, law or regulation may prescribe the financial reporting framework to be used by management in preparing and presenting special purpose financial statements for a certain type of entity. For example, a regulator may establish financial reporting provisions to meet its requirements. In the absence of indications to the contrary, such a financial reporting framework is presumed acceptable for special purpose financial statements prepared and presented by such entity.

A6. Where the financial reporting standards referred to in paragraph A5 are supplemented by legislative or regulatory requirements, [proposed] ISA 210 (Redrafted) requires the auditor to determine whether any conflicts between the financial reporting standards and the additional requirements exist, and prescribes actions to be taken by the auditor if such conflicts exist.

A7. The applicable financial reporting framework may encompass the financial reporting provisions of a contract, or sources other than those described in paragraphs A5 and A6. In that case, the acceptability of the financial reporting framework in the circumstances of the engagement is determined by considering whether the framework exhibits attributes normally exhibited by acceptable financial reporting frameworks as described in Appendix 2 of [proposed] ISA 210 (Redrafted). In the case of a special purpose framework, the relative importance to a particular engagement of each of the attributes normally exhibited by acceptable financial reporting frameworks is a matter of professional judgment. For example, for purposes of a balance sheet prepared to establish the value of net assets of an entity at the date of its sale, the vendor and the purchaser may have agreed to make very

prudent estimates of allowances for uncollectible accounts receivable. This may result in financial information that is not neutral, but it nevertheless may be acceptable in the circumstances of the engagement.

A8. There may be circumstances where a special purpose framework is based on a financial reporting framework established by an authorized or recognized standards setting organization, but does not comply with all the requirements of that framework. An example is a contract that requires financial statements to be prepared in accordance with most, but not all, of the Financial Reporting Standards of Country X. When this is acceptable in the circumstances of the engagement, it is inappropriate for the description of the applicable financial reporting framework in the special purpose financial statements to imply full compliance with the financial reporting framework established by the authorized or recognized standards setting organization. In the above example of the contract, the description of the applicable financial reporting framework may refer to the financial reporting provisions of the contract.

Considerations when Planning and Performing the Audit (Ref: Para. 11)

A9. [Proposed] ISA 200 (Revised and Redrafted) requires the auditor to comply with (a) relevant ethical requirements relating to an audit engagement, and (b) all ISAs relevant to the audit. It also requires the auditor to comply with the requirements of each of the relevant ISAs in all cases where the requirements are relevant to the audit unless, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement by performing alternative audit procedures to achieve the aim of that requirement.

A10. Application of some of the requirements of the ISAs may require special consideration by the auditor. For example, in [proposed] ISA 320 (Revised and Redrafted), "Materiality in Planning and Performing an Audit" judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. In the case of an audit of special purpose financial statements, however, those judgments are based on a consideration of the financial information needs of the specific users.

A11. In the case of special purpose financial statements prepared for a specific purpose, such as those prepared in accordance with the requirements of a contract, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. Although such a threshold may satisfy the financial information needs of the intended users for purposes of any adjustments that may arise, it may differ from the amount the auditor determines as a materiality level for purposes of the engagement in accordance with [proposed] ISA 320 (Revised and Redrafted).

A12. Communication with those charged with governance in accordance with the ISAs is based on the relationship between those charged with governance and the financial statements subject to audit, in particular whether those charged with governance are responsible for overseeing the preparation and presentation of those financial statements. In the case of

special purpose financial statements prepared for a specific purpose, those charged with governance may not have such a responsibility; for example, when the special purpose financial statements are prepared solely for management's use, or when the party engaging the auditor is not the entity responsible for the special purpose financial statements. In these cases, the requirements of [proposed] ISA 260 (Revised and Redrafted), "Communication with Those Charged with Governance" may not be relevant to the audit of the special purpose financial statements prepared for a specific purpose, except when the auditor is also responsible for the audit of the entity's general purpose financial statements or, for example, has agreed with those charged with governance of the entity to communicate to them relevant matters identified during the audit of the special purpose financial statements prepared for a specific purpose.

Forming an Opinion and Reporting Considerations (Ref: Para. 12)

A13. Appendix 2 of this ISA contains illustrations of auditors' reports on special purpose financial statements (see Illustrations 1-3).

Restriction on Use (Ref: Para. 14)

A14. The special purpose financial statements and related auditor's report may be used for purposes other than those for which they were intended. For example, a regulator may require certain entities to place the special purpose financial statements and related auditor's report on public record. To avoid misunderstandings, the auditor alerts readers of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose.

A15. The auditor may also consider including a statement in the auditor's report that it is intended solely for the intended users, and should not be distributed to or used by other parties. Where this is the case, the heading referred to in paragraph 14 would read Other Matter – Restriction on Use and Distribution.

Audits of Specific Elements, Accounts or Items of a Financial Statement

Considerations when Accepting the Engagement (Ref: Para. 15-17)

A16. As explained in paragraph A9 of this ISA, [proposed] ISA 200 (Revised and Redrafted) requires the auditor to comply with (a) relevant ethical requirements relating to an audit engagement, and (b) all ISAs relevant to the audit. It also requires the auditor to comply with the requirements of each of the relevant ISAs in all cases where the requirements are relevant to the audit unless, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement by performing alternative audit procedures to achieve the aim of that requirement.

A17. The relevance of each of the ISAs requires careful consideration. Even when only an element is the subject of the audit, ISAs such as ISA 240 (Redrafted), "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements," [proposed] ISA 550 (Revised and Redrafted), "Related Parties" and [proposed] ISA 570 (Redrafted), "Going Concern" are in principle relevant. This is because the element could be misstated

as a result of fraud, the effect of related party transactions, or the incorrect application of the going concern assumption under the applicable financial reporting framework.

A18. As the ISAs are written in the context of financial statements, all relevant ISAs are to be adapted as necessary in the circumstances when applied to the audit of the element. For example, written representations from management about the financial statements as a whole might be replaced by representations about the presentation of the element in accordance with the applicable financial reporting framework.

A19. Compliance with relevant requirements may not be practicable when the auditor is not also engaged to audit the entity's financial statements. In such cases, the auditor often does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's financial statements. The auditor also does not have the audit evidence about the general quality of the accounting records or other accounting information that would be acquired in an audit of the entity's financial statements. Accordingly, the auditor may need further evidence to corroborate audit evidence acquired from the accounting records. In some cases, certain ISAs require audit work that may be disproportionate to the element being audited. For example, although the requirements of [proposed] ISA 570 (Redrafted) are likely to be relevant in the circumstances of an audit of a schedule of accounts receivable, complying with those requirements may not be practicable because of the audit effort required. If the auditor concludes that an audit of the element in accordance with ISAs may not be practicable, the auditor may discuss with management whether another type of engagement might be more practicable.

Considerations when Planning and Performing the Audit (Ref: Para. 16)

A20. When auditing the element in conjunction with the audit of the entity's financial statements, the auditor may be able to use audit evidence obtained as part of the audit of the entity's financial statements in the audit of the element. ISAs, however, requires the auditor to plan and perform the audit of the element to obtain sufficient appropriate audit evidence on which to base the opinion on the element.

A21. Many financial statement items are interrelated, and are presented with related explanatory notes. Accordingly, when auditing an element, the auditor may not be able to consider the element in isolation. Consequently, the auditor may need to perform procedures in relation to the interrelated items to meet the objective of an audit.

A22. Furthermore, the materiality level determined for the element may be lower than the materiality level or levels determined for the entity's financial statements; this will affect the nature, timing and extent of the audit procedures.

A23. In the case of an element, it is important that management's presentation of the element, in view of the specific requirements of the applicable financial reporting framework, provides adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the element.

Reporting Considerations (Ref: Para. 20)

A24. Unless otherwise required by law or regulation, in accordance with [proposed] ISA 200 (Revised and Redrafted) in conjunction with [proposed] ISA 700 (Redrafted), the opinion paragraph of the auditor's report on an element states that the element gives a true and fair view or presents fairly, in all material respects, in accordance with the applicable financial reporting framework when that framework is a fair presentation framework. In all other cases, the auditor's opinion states that the element is prepared, in all material respects, in accordance with the applicable financial reporting framework. Appendix 2 of this ISA contains an illustration of an auditor's report on a specific account (see Illustration 4).

A25. When either a modified opinion on the entity's financial statements or an Emphasis of Matter paragraph relates to the audited element, the auditor may conclude that it is necessary to modify the auditor's report on the element in a similar manner. Even when a modified opinion on the entity's financial statements or an Emphasis of Matter paragraph does not relate to the audited element, the auditor may still conclude that it is necessary to refer to the modified opinion or Emphasis of Matter in an Other Matter(s) paragraph in the auditor's report on the element because it is important to the users' understanding of the financial statements (see [proposed] ISA 706 (Revised and Redrafted)).

A26. In accordance with [proposed] ISA 705 (Revised and Redrafted), if the auditor has expressed an adverse opinion or disclaimed an opinion on the entity's financial statements as a whole, the auditor is not permitted to express an unmodified opinion on an element of those financial statements in the same auditor's report and with respect to the same applicable financial reporting framework (referred to in [proposed] ISA 705 (Redrafted) as a "piecemeal opinion"). However, the auditor may be able to express an unmodified opinion on the element where that opinion is expressed in a separate auditor's report. This is only possible if the element to be reported on and the related scope of the audit, including the additional procedures referred to in paragraph A21, were not intended to, and did not, encompass so many elements as to constitute a major portion of those financial statements.

Appendix 1

(Ref: Para. 1)

Examples of Specific Elements, Accounts or Items of a Financial Statement

- Accounts receivable, allowance for doubtful accounts receivable, inventory, the liability for accrued benefits of a private pension plan, the recorded value of identified intangible assets, or the liability for "incurred but not reported" claims in an insurance portfolio, including related explanatory notes.
- A schedule of externally managed assets and income of a private pension plan, including related explanatory notes.
- A schedule of net tangible assets, including related explanatory notes.
- A schedule of disbursements in relation to a lease property, including related explanatory notes.
- A schedule of profit participation or employee bonuses, including related explanatory notes.

Appendix 2

(Ref: Para. A13, A24)

Illustrations of Auditors' Reports on Special Purpose Financial Statements

- Illustration 1: An auditor's report on a complete set of financial statements prepared in accordance with financial reporting provisions of a contract.
- Illustration 2: An auditor's report on a complete set of financial statements prepared in accordance with a financial reporting framework for special purpose financial statements, but which is not a fair presentation framework.
- Illustration 3: An auditor's report on a single financial statement prepared in accordance with a fair presentation framework for special purpose financial statements.
- Illustration 4: An auditor's report on a specific element, account or item of a financial statement prepared in accordance with a financial reporting framework for special purpose financial statements, but which is not a fair presentation framework.

Illustration 1:

Circumstances include the following:

- **Audit of a complete set of financial statements.**
- **The financial statements have been prepared by the management of the entity in accordance with the financial reporting provisions of a contract (i.e., a financial reporting framework designed to meet the financial information needs of specific users, but which is not a fair presentation framework) to comply with the provisions of that contract (i.e., a specific purpose). Management does not have a choice of financial reporting frameworks.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and presentation of these financial statements in accordance with the financial reporting provisions of section Z of the contract between ABC Company and DEF Company ("the contract"). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements of ABC Company for the year ended December 31, 20X1 have been prepared, in all material respects, in accordance with the financial reporting provisions of section Z of the contract.

Other Matter – Restriction on Use *[and Distribution]*

As indicated above, the financial statements have been prepared in accordance with the financial reporting provisions of section Z of the contract to assist ABC Company to comply with the provisions of the contract. The financial statements and related auditor's report may not be suitable for another purpose. *[Our report is intended solely for ABC Company and DEF Company and should not be distributed to or used by parties other than ABC Company or DEF Company.]*

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Illustration 2:

Circumstances include the following:

- **Audit of a complete set of financial statements.**
- **The financial statements have been prepared by the management of a partnership in accordance with the tax basis of accounting in Country X (i.e., a financial reporting framework designed to meet the financial information of specific users, but which is not a fair presentation framework) to assist the partners in preparing their individual income tax returns (i.e., a specific purpose). Management does not have a choice of financial reporting frameworks.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying financial statements of ABC Partnership, which comprise the balance sheet as at December 31, 20X1 and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and presentation of these financial statements in accordance with the tax basis of accounting in Country X. They have been prepared to assist the partners of ABC Partnership in preparing their individual income tax returns. Management's responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the partnership's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the partnership's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements of ABC Partnership for the year ended December 31, 20X1 have been prepared, in all material respects, in accordance with [describe the applicable income tax law] of Country X.

Other Matter – Restriction on Use *[and Distribution]*

As indicated above, the financial statements have been prepared in accordance with the tax basis of accounting in Country X to assist the partners of ABC Partnership in preparing their individual income tax returns. The financial statements and related auditor's report may not be suitable for another purpose. *[Our report is intended solely for ABC Partnership and its partners and should not be distributed to or used by parties other than ABC Partnership or its partners.]*

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Illustration 3:

Circumstances include the following:

- **Audit of a statement of cash receipts and disbursements (i.e., a single financial statement).**
- **The financial statement has been prepared by the management of the entity in accordance with the cash receipts and disbursements basis of accounting (for purposes of this illustration a fair presentation financial reporting framework designed to meet the financial information needs of specific users) to respond to a request for cash flow information received from a creditor (i.e., a specific purpose). Management has a choice of financial reporting frameworks.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying statement of cash receipts and disbursements of ABC Company for the year ended December 31, 20X1 and a summary of significant accounting policies and other explanatory notes (together 'the financial statement').

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash receipts and disbursements basis of accounting described in Note X for the purpose of providing information to XYZ Creditor. This responsibility includes: determining that the cash receipts and disbursements basis of accounting is an acceptable basis for preparing and presenting the financial statement in the circumstances; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates, if any, that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement presents fairly, in all material respects, the cash receipts and disbursements of ABC Company for the year ended December 31, 20X1 in accordance with the cash receipts and disbursements basis of accounting described in Note X.

Other Matter – Restriction on Use *[and Distribution]*

The financial statement has been prepared in accordance with the cash receipts and disbursements basis of accounting described in Note X for purposes of providing information to XYZ Creditor. The statement and related auditor's report may not be suitable for another purpose. *[Our report is intended solely for ABC Company and XYZ Creditor and should not be distributed to or used by parties other than ABC Company or XYZ Creditor.]*

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Illustration 4:

Circumstances include the following:

- **Audit of the liability for "incurred but not reported" claims in an insurance portfolio (i.e., element, account or item of a financial statement).**
- **The financial information has been prepared by the management of the entity in accordance with the financial reporting provisions established by a regulator (i.e., a financial reporting framework designed to meet the financial information needs of specific users, but which is not a fair presentation framework) to meet the requirements of that regulator (i.e., a specific purpose). Management does not have a choice of financial reporting frameworks.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying schedule of the liability for "incurred but not reported" claims of ABC Insurance Company as of December 31, 20X1 ('the schedule').

Management's Responsibility for the Schedule

Management is responsible for the preparation and presentation of the schedule in accordance with [describe the financial reporting provisions established by the regulator]. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of the schedule that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial information in the schedule of the liability for "incurred but not reported" claims of ABC Insurance Company as of December 31, 20X1 has been prepared, in all material respects, in accordance with [describe the financial reporting provisions established by the regulator].

Other Matter – Restriction on Use *[and Distribution]*

The schedule has been prepared in accordance with [describe the financial reporting provisions established by the regulator] and it and the related auditor's report may not be suitable for another purpose. *[Our report is intended solely for ABC Insurance Company and [insert name of regulator] and should not be distributed to or used by parties other than ABC Insurance Company or [insert name of regulator].]*

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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