**Agenda Item 8-D**

**CLEAN**

# PROPOSED INTERNATIONAL STANDARD ON AUDITING 805 (REVISED AND REDRAFTED) ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS

(Effective for engagements for periods beginning on or after [date])[1]

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[1] See footnote 2.

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International Standard on Auditing (ISA) 805 (Revised and Redrafted), "Engagements to Report on Summary Financial Statements" 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. This International Standard on Auditing (ISA) deals with engagements to report on summary financial statements derived from financial statements audited in accordance with the ISAs by the same auditor that is engaged to report on the summary financial statements.

## Effective Date

2. This ISA is effective for engagements for periods beginning on or after [date].[2]

# Definitions

3. For purposes of this ISA, the following terms have the meanings attributed below:

   (a) Applied criteria – The criteria applied by management in preparing and presenting the summary financial statements.

   (b) Audited financial statements – The financial statements, audited by the auditor in accordance with the ISAs, and from which the summary financial statements are derived.

   Although different jurisdictions may use different terminology to describe financial information that is a summary of financial statements, for purposes of this ISA they are referred to as "summary financial statements."

# Objective

4. The objective of the auditor is to express an opinion whether the summary financial statements are a fair summary of the audited financial statements in accordance with the applied criteria.

# Requirements

## Engagement Acceptance

5. The auditor shall accept an engagement to report on summary financial statements in accordance with this ISA only when the summary financial statements are derived from financial statements on which the auditor has issued an auditor's report in accordance with the ISAs. (Ref: Para. A1)

6. Before accepting an engagement to report on summary financial statements, the auditor shall request management to:

   (a) Acknowledge its responsibility for preparing and presenting the summary financial statements in accordance with the applied criteria. (Ref: Para. A2)

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

(b) Unless the circumstances in paragraph 8 apply, confirm that the audited financial statements will be made available to the intended users of the summary financial statements without undue difficulty. (Ref: Para. A2)

(c) Confirm that any document containing the summary financial statements that indicates that the auditor has reported on them will include the auditor's report. (Ref: Para. A2)

7. If management refuses to provide either the acknowledgement or confirmations in paragraph 6, the auditor shall not accept the engagement, unless law or regulation prohibits the auditor from refusing an engagement to report on summary financial statements. When law or regulation prohibits the auditor from refusing such an engagement, the auditor shall:

(a) Disclaim an opinion on the summary financial statements in the case of paragraph 6(a); or

(b) Consider seeking legal advice to assist in determining the appropriate course of action if the circumstances in paragraph 6(b) or (c) arise. (See paragraphs 26-27.)

The auditor shall also determine the effect that management's refusal may have on the auditor's acceptance of the engagement to audit the financial statements.

8. In some jurisdictions, law or regulation may provide that the audited financial statements need not be made available to the intended users. If the case, the auditor shall accept an engagement to report on summary financial statements only if the law or regulation establishes the criteria for preparing and presenting the summary financial statements, unless law or regulation prohibits the auditor from refusing such an engagement. An engagement which the auditor is thereby required to accept is not an engagement conducted in accordance with this ISA.

*Criteria*

9. The auditor shall accept an engagement to report on summary financial statements only when the auditor concludes that the applied criteria are acceptable in the circumstances, unless law or regulation prohibits the auditor from refusing such an engagement. When law or regulation prohibits the auditor from refusing such an engagement, the auditor shall modify the auditor's report on the summary financial statements appropriately. (Ref: Para. A3-A7)

**Nature of Procedures and Form of Opinion**

10. The auditor shall perform the following procedures as the basis for the auditor's opinion on the summary financial statements:

(a) Evaluate whether the summary financial statements adequately disclose their summarized nature and identify the audited financial statements.

(b) When summary financial statements are not accompanied by the audited financial statements, evaluate whether they describe clearly:

(i) From whom or where the audited financial statements are available; or

(ii) In the circumstances addressed in paragraph 8, the law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements.

(c) Unless the circumstances in paragraph 8 apply, evaluate whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty. (Ref: Para. A8)

(d) Evaluate whether the summary financial statements adequately disclose the applied criteria.

(e) Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be recalculated from the related information in the audited financial statements.

(f) Evaluate whether the summary financial statements have been prepared and presented in accordance with the applied criteria.

(g) In view of the applied criteria, evaluate whether the summary financial statements contain the information necessary so as not to be misleading in the circumstances.

11. Based on the procedures in paragraph 10, and any other procedures that the auditor may consider necessary in the circumstances, the auditor shall form an opinion whether the summary financial statements are a fair summary of the audited financial statements in accordance with the applied criteria.

**Timing of Work and Events Subsequent to the Date of the Auditor's Report on the Audited Financial Statements**

12. The auditor's report on the summary financial statements may be dated later than the date of the auditor's report on the audited financial statements. If the case, the auditor's report on the summary financial statements shall state that the summary financial statements and audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements that may require adjustment of, or disclosure in, the audited financial statements. (Ref: Para. A9)

13. The auditor may become aware of facts that existed at the date of the auditor's report on the audited financial statements but of which the auditor previously was unaware. If the case, the auditor shall not issue the auditor's report on the summary financial statements until the auditor's consideration of such facts in relation to the audited financial statements in accordance with ISA 560, "Subsequent Events" has been completed. (Ref: Para. A10)

## Auditor's Report on Summary Financial Statements

*Elements of the Auditor's Report*

14. The auditor's report on summary financial statements, derived from audited financial statements on which an unmodified opinion is expressed,[3] shall include the following elements: (Ref: Para. A15)

    (a) A title clearly indicating it as the report of an independent auditor. (Ref: Para. A11)

    (b) An addressee. (Ref: Para. A12)

    (c) An introductory paragraph that:

        (i) Identifies the summary financial statements on which the auditor is reporting, including the title of each statement included in the summary financial statements; (Ref: Para. A13)

        (ii) Identifies the audited financial statements;

        (iii) Refers to the auditor's report on the audited financial statements, the date of that report, and the fact that an unmodified opinion is expressed on the audited financial statements;

        (iv) When the date of the auditor's report on the summary financial statements is later than the date of the auditor's report on the audited financial statements, states that the summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements; and

        (v) A statement, or reference to a note in the summary financial statements, indicating that they do not contain all the disclosures required by the financial reporting framework applied in preparing and presenting the audited financial statements, and that reading the summary financial statements is not a substitute for reading the audited financial statements.

    (d) A description of management's responsibility for preparing and presenting the summary financial statements in accordance with the applied criteria.

    (e) A statement that the auditor is responsible for expressing an opinion on the summary financial statements based on the procedures required by this ISA.

    (f) A paragraph clearly expressing an opinion whether the summary financial statements are a fair summary of the audited financial statements in accordance with the applied criteria or, in the circumstances described in paragraph 16, a paragraph clearly expressing the opinion prescribed by law or regulation.

    (g) The auditor's signature.

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[3] Paragraphs 20-21 deal with circumstances where the auditor's report on the audited financial statements has been modified.

(h) The date of the auditor's report. (Ref: Para. A14)

(i) The auditor's address.

15. Normally the addressee of the summary financial statements is the same as the addressee of the auditor's report on the audited financial statements. If this is not the case, the auditor shall evaluate the appropriateness of using a different addressee. (Ref: Para. A12)

16. 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.

17. The auditor shall date the auditor's report on the summary financial statements no earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the opinion. Sufficient appropriate evidence shall include evidence that the summary financial statements have been prepared and that management has asserted that it has taken responsibility for them. (Ref: Para. A14)

*Modifications to the Opinion, Emphasis of Matter Paragraph or Other Matter(s) Paragraph in the Auditor's Report on the Audited Financial Statements* (Ref: Para. A16)

18. When the auditor's report on the audited financial statements contains a qualified opinion, an Emphasis of Matter paragraph, or an Other Matter(s) paragraph, but the auditor is satisfied that the summary financial statements are a fair summary of the audited financial statements in accordance with the applied criteria, the auditor's report on the summary financial statements shall:

(a) State that the auditor's report on the audited financial statements contains a qualified opinion, an Emphasis of Matter paragraph, or an Other Matter(s) paragraph; and

(b) Describe:

(i) The basis for the qualified opinion on the audited financial statements, and that qualified opinion; or the Emphasis of Matter or the Other Matter(s) paragraph in the auditor's report on the audited financial statements; and

(ii) The effect thereof on the summary financial statements, if any.

19. When the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor's report on the summary financial statements shall:

(a) State that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer of opinion;

(b) Describe the basis for that adverse opinion or disclaimer of opinion; and

(c) State that, as a result of the adverse opinion or disclaimer of opinion, it would be inappropriate to express an opinion on the summary financial statements.

*Modified Opinion on the Summary Financial Statements* (Ref: Para. A17)

20. If the summary financial statements are not a fair summary of the audited financial statements in accordance with the applied criteria and management does not agree to make the appropriate changes, the auditor shall express an adverse opinion on the summary financial statements.

**Restriction on Use or Distribution**

21. When the use or distribution of the auditor's report on the audited financial statements is restricted in accordance with [proposed] ISA 800 (Revised and Redrafted), "Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement," the auditor shall restrict use or distribution of the auditor's report on the summary financial statements accordingly.

**Comparatives**

22. If the audited financial statements contain comparatives, but the summary financial statements do not, the auditor shall determine whether such omission is reasonable in the circumstances of the engagement. The auditor shall determine the effect of an unreasonable omission on the auditor's report on the summary financial statements. (Ref: Para. A18-A19)

23. If the summary financial statements contain comparatives that were reported on by another auditor, the auditor's report on the summary financial statements shall also contain the matters included in the auditor's report on the audited financial statements in compliance with ISA 710, "Comparatives."

**Unaudited Supplementary Information Presented with Summary Financial Statements**

24. The auditor shall evaluate whether the unaudited supplementary information presented with the summary financial statements is clearly differentiated from the summary financial statements. If the auditor concludes that the entity's presentation of the unaudited supplementary information does not differentiate it sufficiently from the summary financial statements, the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor's report on the summary financial statements shall explain that the supplementary information is not covered by the report. (Ref: Para. A20-A21)

**Auditor Association**

25. The auditor may report on the audited financial statements but not on the summary financial statements. If, in this case, the auditor becomes aware that the entity plans to make a statement in a document that refers to the auditor and the fact that summary financial statements are derived from the audited financial statements, the auditor shall be satisfied that:

    (a) The reference to the auditor is made in the context of the auditor's report on the audited financial statements; and

    (b) The statement does not give the impression that the auditor has reported on the summary financial statements.

    If the provisions in paragraph 25(a) and (b) are not met, the auditor shall request management to change the statement to meet them, or not to refer to the auditor in the document. Alternatively, the entity may engage the auditor to report on the summary financial statements and include the auditor's report in the document. If management does not change the statement, delete the reference to the auditor, or include an auditor's report on the summary financial statements in the document containing the summary financial statements, the auditor shall advise management that the auditor disagrees with the reference to the auditor, and the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately referring to the auditor. (Ref: Para. A22)

26. If the auditor has reported on summary financial statements and becomes aware that the entity plans to state that fact in a document containing the summary financial statements, but does not plan to include the related auditor's report, the auditor shall request management to include the auditor's report in the document. If management does not, the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately associating the auditor with the summary financial statements in that document. (Ref: Para. A21)

27. If the auditor becomes aware that the entity has issued a document that contains a statement that, as set out in paragraphs 25 or 26, inappropriately associates the auditor with the summary financial statements, the auditor shall consider seeking legal advice to assist in determining the appropriate course of action.

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## Application and Other Explanatory Material

**Engagement Acceptance** (Ref: Para. 5-6)

A1. The audit of the financial statements from which the summary financial statements are derived provides the auditor with the necessary knowledge to discharge the auditor's responsibilities in relation to the summary financial statements in accordance with this ISA. Application of this ISA will not provide sufficient appropriate evidence on which to

base the opinion on the summary financial statements if the auditor has not also audited the financial statements from which the summary financial statements are derived.

A2. Management's acknowledgement and confirmation of the matters described in paragraph 6 may be evidenced by its written acceptance of the terms of the engagement.

*Criteria* (Ref: Para. 9)

A3. Management is responsible for determining the information that needs to be reflected in the summary financial statements so that they represent a fair summary of the audited financial statements. Because summary financial statements by their nature contain aggregated information and limited disclosure there is an increased risk that they may not contain the information necessary so as not to be misleading in the circumstances. This risk increases when established criteria for preparing and presenting summary financial statements do not exist.

A4. Factors that may affect the auditor's determination of the acceptability of the applied criteria include:

- The nature of the entity;
- The purpose of the summary financial statements;
- The information needs of the intended users of the summary financial statements; and
- Whether the applied criteria will result in summary financial statements that are not misleading in the circumstances.

A5. The criteria for preparing and presenting summary financial statements may be established by an authorized or recognized standards setting organization or by law or regulation. As explained in ISA 210, "Terms of Audit Engagements," in many cases the auditor may presume that such criteria are acceptable.

A6. Where established criteria for preparing and presenting summary financial statements do not exist, criteria may be developed by management, for example, based on practice in a particular industry. Criteria that are acceptable in the circumstances will result in summary financial statements that:

(a) Adequately disclose their summarized nature and identify the audited financial statements.

(b) Clearly describe from whom or where the audited financial statements are available or, in the circumstances addressed in paragraph 8, the law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements.

(c) Adequately discloses the applied criteria.

(d) Agree with or can be recalculated from the related information in the audited financial statements.

(e) In view of the purpose of the summary financial statements, contain the information necessary, and are at a level of aggregation, so as not to be misleading in the circumstances.

A7. Adequate disclosure of the summarized nature of the summary financial statements and the identity of the audited financial statements, as referred to in paragraph A6(a), may, for example, be provided by a title such as "Summary Financial Statements Prepared from the Audited Financial Statements for the Year Ended December 31, 20X1."

**Evaluating the Availability of the Summary Financial Statements** (Ref: Para. 10(c))

A8. The auditor's evaluation whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty is affected by factors such as:

- Whether the summary financial statements describe clearly from whom or where the audited financial statements are available;
- Whether the audited financial statements are on public record; or
- Whether management has established a process by which the intended users of the summary financial statements can obtain ready access to the audited financial statements.

**Timing of Work and Events Subsequent to the Date of the Auditor's Report on the Audited Financial Statements** (Ref: Para. 12-13)

A9. The procedures described in paragraph 10 are often performed during or immediately after the audit of the financial statements. When the auditor is requested to report on the summary financial statements after the completion of the audit of the financial statements, the auditor is not required to obtain additional audit evidence on the audited financial statements, or report on the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements since the summary financial statements are derived from the audited financial statements and do not update them.

A10. Prior to issuing the report on the summary financial statements, the auditor may become aware of facts that existed at the date of the auditor's report on the audited financial statements but of which the auditor was previously unaware. If the case, he auditor considers such facts in relation to the audited financial statements in accordance with ISA 560, "Subsequent Events." The auditor does not issue the report on the summary financial statements until such consideration has been completed, since it would be inappropriate to issue summary financial statements if the possibility of adjustment to the audited financial statements was under consideration.

**Auditor's Report on Summary Financial Statements**

*Elements of the Auditor's Report*

Title (Ref: Para. 14(a))

A11. A title indicating the report is the report of an independent auditor, for example, "Report of the Independent Auditor," affirms that the auditor has met all of the relevant ethical requirements regarding independence. This distinguishes the report of the independent auditor from reports issued by others.

Addressee (Ref: Para. 14(b), 15)

A12. Factors that may affect the auditor's evaluation of the appropriateness of the addressee of the summary financial statements include the terms of the engagement, the nature of the entity, and the purpose of the summary financial statements.

Introductory Paragraph (Ref: Para. 14(c)(i))

A13. When the auditor is aware that the summary financial statements will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the summary financial statements are presented. This helps readers to identify the summary financial statements to which the auditor's report relates.

Date of the Auditor's Report (Ref: Para. 14(h), 17)

A14. The summary financial statements are the responsibility of management. The auditor therefore is not in a position to conclude that sufficient appropriate evidence has been obtained until evidence is obtained that the preparation of the summary financial statements has been completed and management has asserted that it has taken responsibility for them. The person or persons with recognized authority to provide such an assertion depend on the terms of the engagement, the nature of the entity, and the purpose of the summary financial statements.

Illustrations (Ref: Para. 14)

A15. The Appendix to this ISA contains illustrations of auditors' reports that contain unmodified opinions on summary financial statements.

*Modifications to the Opinion, Emphasis of Matter Paragraph or Other Matter(s) Paragraph in the Auditor's Report on the Audited Financial Statements* (Ref: Para. 18-19)

A16. The Appendix to this ISA contains illustrations of auditors' reports on summary financial statements derived from audited financial statements on which the auditor issued modified opinions.

*Modified Opinion on the Summary Financial Statements* (Ref: Para. 20)

A17. The Appendix to this ISA contains an illustration of an auditor's report with a modified opinion on the summary financial statements.

**Comparatives** (Ref: Para. 22-23)

A18. There is a presumption that if the audited financial statements contain comparatives, the summary financial statements also would contain comparatives. Comparatives in the audited financial statements may be regarded as corresponding figures or as comparative financial information. ISA 710 describes how this difference affects the auditor's report, including, in particular, reference to other auditors who audited the financial statements for the prior period.

A19. Circumstances that may affect the auditor's determination whether an omission of comparatives is reasonable include the nature and objective of the summary financial statements, the applied criteria, and the information needs of the intended users of the summary financial statements

**Unaudited Supplementary Information Presented with Summary Financial Statements** (Ref: Para. 24)

A20. ISA 700 (Revised), "The Independent Auditor's Report on General Purpose Financial Statements" contains requirements and guidance to be applied when unaudited supplementary information is presented with audited financial statements.

A21. The fact that supplementary information is unaudited does not relieve the auditor of the responsibility to read that information to identify material inconsistencies with the summary financial statements in accordance with ISA 720, "Other Information in Documents Containing Audited Financial Statements."

**Auditor Association** (Ref: Para. 25-27)

A22. Other appropriate actions the auditor may take when management does not take the requested action (see paragraphs 26-27) may include informing the intended users and other known third party users of the inappropriate reference to the auditor.

# Appendix

(Ref: Para. A15- A17)

## Illustrations of Reports on Summary Financial Statements

- Illustration 1: An auditor's report on summary financial statements prepared in accordance with established criteria. An unmodified opinion is expressed on the audited financial statements.
- Illustration 2: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. An unmodified opinion is expressed on the audited financial statements.
- Illustration 3: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. A qualified opinion is expressed on the audited financial statements.
- Illustration 4: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. An adverse opinion is expressed on the audited financial statements.
- Illustration 5: An auditor's report on summary financial statements prepared in accordance with established criteria. An unmodified opinion is expressed on the audited financial statements. The auditor concludes that it is not possible to express an unmodified opinion on the summary financial statements.

**Illustration 1:**

**Circumstances include the following:**

- **An unmodified opinion is expressed on the audited financial statements.**
- **Established criteria for preparing and presenting summary financial statements exist.**

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

The accompanying summary financial statements, which comprise the summary balance sheet as at December 31, 20X4, the summary income statement, statement of changes in equity and cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company for the year ended December 31, 20X4. We expressed an unmodified audit opinion on those financial statements in our report dated February 15, 20X5.[4]

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in preparing and presenting the audited financial statements of ABC Company]. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of ABC Company.

**Management's Responsibility for the Summary Financial Statements**

Management is responsible for preparing and presenting a summary of the audited financial statements in accordance with [describe established criteria].

**Auditor's Responsibility**

Our responsibility is to express an opinion on the summary financial statements based on our procedures which were conducted in accordance with International Standard on Auditing (ISA) 805, "Engagements to Report on Summary Financial Statements."

[4] When the auditor's report on the summary financial statements is dated later than the date of the auditor's report on the audited financial statements from which it is derived, the following sentence is added to this paragraph: "Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of the auditor's report on those financial statements."

**Opinion**

In our opinion, the summary financial statements derived from the audited financial statements of ABC Company for the year ended December 31, 20X4 are a fair summary of those financial statements in accordance with [describe established criteria].

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**Illustration 2:**

**Circumstances include the following:**

- **An unmodified opinion is expressed on the audited financial statements.**
- **Criteria are developed by management and adequately disclosed in Note x. The auditor has determined that the criteria are acceptable in the circumstances.**

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

The accompanying summary financial statements, which comprise the summary balance sheet as at December 31, 20X4, the summary income statement, statement of changes in equity and cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company for the year ended December 31, 20X4. We expressed an unmodified audit opinion on those financial statements in our report dated February 15, 20X5.[5]

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in preparing and presenting the audited financial statements of ABC Company]. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of ABC Company.

**Management's Responsibility for the Summary Financial Statements**

Management is responsible for preparing and presenting a summary of the audited financial statements on the basis described in Note x.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the summary financial statements based on our procedures which were conducted in accordance with International Standard on Auditing (ISA) 805, "Engagements to Report on Summary Financial Statements."

**Opinion**

In our opinion, the summary financial statements derived from the audited financial statements of ABC Company for the year ended December 31, 20X4 are a fair summary of those financial statements on the basis described in Note x.

[Auditor's signature]

[Date of the auditor's report]

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[5] When the auditor's report on the summary financial statements is dated later than the date of the auditor's report on the audited financial statements from which it is derived, the following sentence is added to this paragraph: "Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of the auditor's report on those financial statements."

[Auditor's address]

**Illustration 3:**

**Circumstances include the following:**

- **A qualified opinion is expressed on the audited financial statements.**
- **Criteria are developed by management and adequately disclosed in Note x. The auditor has determined that the criteria are acceptable in the circumstances.**

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

The accompanying summary financial statements, which comprise the summary balance sheet as at December 31, 20X4, the summary income statement, statement of changes in equity and cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company for the year ended December 31, 20X4.[6]

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in preparing and presenting the audited financial statements of ABC Company]. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of ABC Company.

**Management's Responsibility for the Summary Financial Statements**

Management is responsible for preparing and presenting a summary of the audited financial statements on the basis described in Note x.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the summary financial statements based on our procedures which were conducted in accordance with International Standard on Auditing (ISA) 805, "Engagements to Report on Summary Financial Statements."

**Opinion**

In our opinion, the summary financial statements derived from the audited financial statements of ABC Company for the year ended December 31, 20X4 are a fair summary of those financial statements on the basis described in Note x.

However, the summary financial statements are misstated to the equivalent extent as the audited financial statements of ABC Company for the year ended December 31, 20X4. The misstatement of the audited financial statements is described in our qualified audit opinion in our report dated February 15, 20X5. Our qualified audit opinion is based on the fact that we do not agree with

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[6] When the auditor's report on the summary financial statements is dated later than the date of the auditor's report on the audited financial statements from which it is derived, the following sentence is added to this paragraph: "Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of the auditor's report on those financial statements."

management regarding the amount at which inventories are stated in those financial statements. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from International Financial Reporting Standards. The company's records indicate that had management stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively. Our qualified audit opinion states that, except for the effects of the described matter, those financial statements give a true and fair view of (*or "present fairly, in all material respects"*) the financial position of ABC Company as of December 31, 20X4, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**Illustration 4:**

**Circumstances include the following:**

- **An adverse opinion is expressed on the audited financial statements.**
- **Criteria are developed by management and adequately disclosed in Note x. The auditor has determined that the criteria are acceptable in the circumstances.**

REPORT OF THE INDEPENDENT AUDITOR ON SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

The accompanying summary financial statements, which comprise the summary balance sheet as at December 31, 20X4, the summary income statement, statement of changes in equity and cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company for the year ended December 31, 20X4.[7]

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in preparing and presenting the audited financial statements of ABC Company]. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of ABC Company.

**Management's Responsibility for the Summary Financial Statements**

Management is responsible for preparing and presenting a summary of the audited financial statements on the basis described in Note x.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the summary financial statements based on our procedures which were conducted in accordance with International Standard on Auditing (ISA) 805, "Engagements to Report on Summary Financial Statements."

**Denial of Opinion**

In our report dated February 15, 20X5, we expressed an adverse audit opinion on the financial statements of ABC Company for the year ended December 31, 20X4. The basis for our adverse audit opinion was [describe basis for adverse audit opinion]. Our adverse audit opinion stated that [describe adverse audit opinion].

[7] When the auditor's report on the summary financial statements is dated later than the date of the auditor's report on the audited financial statements from which it is derived, the following sentence is added to this paragraph: "Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of the auditor's report on those financial statements."

Because of the significance of the matter discussed above, it would be inappropriate to express an opinion on the summary financial statements of ABC Company for the year ended December 31, 20X4.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**Illustration 5:**

**Circumstances include the following:**

- **An unmodified opinion is expressed on the audited financial statements.**
- **Established criteria for preparing and presenting summary financial statements exist.**
- **The auditor concludes that it is not possible to express an unmodified opinion on the summary financial statements.**

REPORT OF THE INDEPENDENT AUDITOR ON SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

The accompanying summary financial statements, which comprise the summary balance sheet as at December 31, 20X4, the summary income statement, statement of changes in equity and cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company for the year ended December 31, 20X4. We expressed an unmodified audit opinion on those financial statements in our report dated February 15, 20X5.[8]

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in preparing and presenting the audited financial statements of ABC Company]. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of ABC Company.

**Management's Responsibility for the Summary Audited Financial Statements**

Management is responsible for preparing and presenting a summary of the audited financial statements in accordance with [describe established criteria].

**Auditor's Responsibility**

Our responsibility is to express an opinion on the summary financial statements based on our procedures which were conducted in accordance with International Standard on Auditing (ISA) 805, "Engagements to Report on Summary Financial Statements."

**Basis for Adverse Opinion**

[Describe matter that caused the summary financial statements not to be a fair summary of the audited financial statements in accordance with the applied criteria.]

**Adverse Opinion**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the summary financial statements are not a fair summary of the audited

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[8] When the auditor's report on the summary financial statements is dated later than the date of the auditor's report on the audited financial statements from which it is derived, the following sentence is added to this paragraph: "Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of the auditor's report on those financial statements."

financial statements of ABC Company for the year ended December 31, 20X4 in accordance with [describe established criteria].

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]