



**International Federation of Accountants**

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## Agenda Item

# 6

**Committee:** IAASB  
**Meeting Location:** New Orleans  
**Meeting Date:** December 6-10, 2004

### **Proposed ISA 800 (Revised), “The Independent Auditor’s Report on Historical Financial Information Other than a Complete Set of General Purpose Financial Statements”**

#### **Objectives of Agenda Item**

1. To conduct a first read of the proposed revised ISA 800, “The Independent Auditor’s Report on Historical Financial Information Other than a Complete Set of General Purpose Financial Statements.”

#### **Background**

2. The task force members are as follows: Sukanta Dutt (Chair), John Archambault, Josef Ferlings (supported by Wolfgang Böhm), Jonas Hällström (INTOSAI) and John Kelly (South Africa).
3. At the June 2004 meeting, the IAASB considered a first issues paper prepared by the task force. A second issues paper and proposed standards and guidance for auditor’s reports on historical financial information other than a complete set of general purpose financial statements were considered at the September 2004 IAASB meeting. The proposed standards and guidance did not include the auditor’s report on summarized financial information.
4. In order to accelerate the project, the IAASB requested the task force not to prepare a third issues paper (dealing with issues related to summarized financial information), but to prepare a proposed ISA 800 (Revised), incorporating the task force’s proposed recommendations with regard to summarized financial information, for a first read at the December 2004 IAASB meeting.
5. The revised project timetable is as follows:
 

December 2004	First read of proposed exposure draft
March 2005	Approval of proposed exposure draft
September 2005	Consideration of summary of significant comments
December 2005	Full review of comments received and first read of proposed final standard
March 2006	Approval of proposed final standard

## Activities Since Last IAASB Discussions

6. The task force met in Kuala Lumpur on October 12-13, 2004. In addition, the task force had three telephone conferences in early November 2004.

## Matters for Consideration by the IAASB

### SCOPE OF PROPOSED ISA 800 (REVISED) VS. SCOPE OF PROPOSED ISA 700 (REVISED)

7. In discussing the first issues paper, the IAASB agreed that proposed ISA 800 (Revised) should cover auditor's reports on historical financial information other than a complete set of general purpose financial statements (i.e., a complete set of financial statements prepared in accordance with a financial reporting framework designed for a general purpose), which is covered in proposed ISA 700 (Revised), "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements." The IAASB also agreed to revise the title of proposed ISA 800 (Revised) to align it with the revised scope.
8. In developing the proposed standards and guidance, the ISA 800 Task Force was concerned that it may be very difficult for users of ISAs to determine whether they should refer to ISA 700 (Revised) or ISA 800 (Revised) when preparing auditor's reports. For example: a complete set of financial statements may be prepared in accordance with a financial reporting framework designed for a special purpose but used for a general purpose; or a single financial statement may be prepared in accordance with a financial reporting framework designed for a general purpose and used for a general or a special purpose (e.g., opening balance sheet in terms of IFRS 1).
9. Consequently, the task force has attempted to clarify the scope of proposed ISA 800 (Revised) in paragraphs 2 and 4 (see Agenda Item 6-A).
10. References to ISA 800 in proposed ISA 700 (Revised) and ISA 200 (Revised) are based on extant ISA 800. In finalizing the exposure draft of proposed ISA 800 (Revised), the task force will propose conforming amendments to ISA 700 (Revised) and ISA 200 (Revised) to align them with the revised scope of proposed ISA 800 (Revised).
11. The ISA 800 Task Force has also found that many of the standards and guidance in proposed ISA 800 (Revised) are the same as those in proposed ISA 700 (Revised). The task force is of the opinion that, ideally, the general standards and guidance for auditor's reports (which should be the same irrespective of the type of audit engagement) should be dealt with in one ISA; and that standards and guidance on reporting considerations relevant to a specific type of audit engagement (for example, an engagement to report on a complete set of general purpose financial statements or an engagement to report on a single financial statement prepared in accordance with a financial reporting framework designed for a special purpose) should be dealt with in a separate section of that ISA or a separate ISA. The task force realizes, however, that proposed ISA 700 (Revised) is close to finalization and that its scope was agreed by the IAASB some time ago; a change in approach is therefore not possible. In order to avoid overlap and repetition, and to highlight more clearly those matters that are different when reporting on other historical financial information, the task force has inserted references to the relevant standards and guidance of proposed ISA 700 (Revised). This is subject to ensuring that proposed ISA 800 (Revised) includes the necessary bold lettered requirements. For example, paragraph 29 in bold letters (see

Agenda Item 6-A) includes a summarized list of required elements of an auditor's report on historical financial information other than a complete set of general purpose financial statements. It is supported by paragraph 30, which reads as follows: "In fulfilling the requirements of paragraph 29, the auditor applies, adapted as necessary in the engagement circumstances, the standards and guidance in proposed ISA 700 (Revised), paragraphs 18-51 and 57."

#### MATERIALITY

12. At the September 2004 meeting, the IAASB requested the task force to consider expanding the guidance on materiality in the context of an audit of historical financial information other than a complete set of general purpose financial statements. In addition, the ISA 320 Task Force was requested to reconsider the limited application of proposed ISA 320 (Revised) to an audit of a complete set of general purpose financial statements.
13. The ISA 800 Task Force considered a draft of proposed ISA 320 (Revised), prepared after the September 2004 IAASB meeting, and suggested to the ISA 320 Task Force how the draft could be amended to apply to audits of historical financial information. The task force chair presented the suggested amendments during a telephone conference of the ISA 320 Task Force. The ISA 320 Task Force made some amendments in response to the ISA 800 Task Force's suggestions. Other proposed guidance, which was not incorporated in proposed ISA 320 (Revised), has been incorporated in proposed ISA 800 (Revised), see paragraphs 10-11 of Agenda Item 6-A.

#### TRUE AND FAIR / PRESENT FAIRLY, IN ALL MATERIAL RESPECTS

14. In considering the second issues paper and proposed standards and guidance, the IAASB requested that the guidance on the terms used to express the audit opinion be revised to be more flexible and to indicate that the auditor uses the terms most appropriate to the engagement circumstances. The task force revised the guidance as follows: "The terms used to express the audit opinion vary and depend on the engagement circumstances (for example, the requirements of the applicable financial reporting framework, the requirements of a regulator, the provisions of a contract, or established practice). For example, the auditor may consider it appropriate in the engagement circumstances to use terms such as 'give a true and fair view (or 'are presented fairly, in all material respects') in accordance with the applicable financial reporting framework,' or 'prepared, in all material respects, in accordance with the applicable financial reporting framework.'" (See paragraph 26 of Agenda Item 6-A.)
15. In addition, the task force inserted paragraphs 27 and 28. Paragraph 27 states that "[w]here the term 'give a true and fair view (or 'are presented fairly, in all material respects') in accordance with the applicable financial reporting framework' is used to express the audit opinion, the auditor considers the fair presentation of the financial information by applying, adapted as necessary in the engagement circumstances, the guidance in proposed ISA 700 (Revised), paragraphs 14-15." In line with proposed ISA 700 (Revised), proposed ISA 800 (Revised) now provides for a "step-back responsibility" where the term "true and fair view" or "present fairly, in all material respects" is used.
16. The scope of proposed ISA 800 (Revised) is such that an auditor may be reporting on historical financial information prepared in accordance with a financial reporting framework that, although acceptable, may not be established (e.g., the financial reporting provisions of a contract).

Consequently, the task force inserted paragraph 28 as follows: “Where other terms, such as ‘prepared, in all material respects, in accordance with the applicable financial reporting framework,’ are used to express the audit opinion, the auditor reflects on whether the other historical financial information, after any adjustments made by the responsible party as a result of the audit process, may be misleading in the engagement circumstances. If the auditor encounters circumstances that lead the auditor to conclude that the other historical financial information is misleading in the engagement circumstances, the auditor discusses the matter with the responsible party and considers the effect on the auditor’s report, which will depend on how the responsible party addresses the matter in the other historical financial information and how the applicable financial reporting framework deals with these circumstances.”

## SUMMARIZED FINANCIAL INFORMATION

### *Criteria*

17. Established criteria for the preparation and presentation of summarized financial information often do not exist. Consequently, proposed ISA 800 (Revised), paragraph 45 (see Agenda Item 6-A), sets the following criteria to be used by the auditor for the evaluation of summarized financial information where established criteria do not exist.
  - (a) Whether the summarized financial information is in agreement with or capable of reconciliation to the related information in the historical financial information; and
  - (b) Whether the summarized financial information, in all material respects, contains the information that the auditor considers necessary in the engagement circumstances to avoid misrepresenting matters disclosed in the historical financial information, including the notes thereto.

### *Term Used to Express Opinion on Summarized Financial Information*

18. Extant ISA 800 requires the auditor to report whether the summarized financial information is “consistent, in all material respects” with the complete set of financial statements from which they are derived. Other standard setters have chosen different wording for the auditor’s report, i.e.: “fairly stated, in all material respects, in relation to ...” (United States), and “fairly summarized, in all material respects ...” (Canada).
19. The task force is of the view that, where criteria for the preparation and presentation of summarized financial information do not exist, it is not appropriate for the auditor to limit his or her procedures to a “consistency check.” The auditor also has to evaluate whether the summarized financial information, in all material respects, contains the information that he or she considers necessary in the engagement circumstances to avoid misrepresenting matters disclosed in the historical financial information (see paragraph 17(b) above). The findings of this evaluation should be reflected in the auditor’s opinion.
20. The task force considered the terms “fairly stated, in all material respects” and “fairly summarized, in all material respects,” but was concerned that these terms may be confused with the term ‘presented fairly,’ which is used in auditor’s reports on complete sets of financial statements and may, depending on the engagement circumstances, be used in auditor’s reports on

other historical financial information. As a result, the task force proposes that the auditor expresses an opinion whether the summarized financial information appropriately summarizes, in all material respects, the historical financial information from which it has been derived.

*Separate ISA for Auditor's Reports on Summarized Financial Information*

21. The project proposal recommended that consideration be given to the nature of an engagement to report on summarized financial statements, i.e., whether it is an audit, a related services engagement, or an other assurance engagement, and, consequently, whether it should be included within the scope proposed ISA 800 (Revised).
22. The task force considered this matter and concluded that, because summarized financial information is derived from audited historical financial information and the auditor's report on summarized financial information is closely linked to the auditor's report on the historical financial information from which it has been derived, the standards and guidance should form part of the ISAs. However, the task force is of the view that the standards and guidance would be better placed in a separate ISA, i.e., ISA 801, "The Independent Auditor's Report on Summarized Financial Information."

**Material Presented**

Agenda Paper 6-A  
(Pages 2109 – 2142)

Proposed ISA 800 (Revised), "The Independent Auditor's Report on Historical Financial Information Other than a Complete Set of General Purpose Financial Statements"

**Action Requested**

The IAASB is asked to consider the matters highlighted in paragraphs 7-22 and to review the proposed ISA 800 (Revised).

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