

Proposed Changes to ISA 200, “Objective and General Principles Governing an Audit of Financial Statements”—For Illustrative Purposes Only

Note: Shaded text reflects text moved from elsewhere. New text or proposed amendments to existing text are shown in mark-up.

Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the objective and general principles governing an audit of financial statements. It also describes management’s responsibility for the preparation and presentation of the financial statements and for identifying the financial reporting framework to be used in preparing the financial statements, ~~referred to in the ISAs as the “applicable financial reporting framework.”~~

Financial Statements

- 1a. The term “financial statements” refers to a structured representation of the financial information, which ordinarily includes accompanying notes, derived from accounting records and intended to communicate an entity’s economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. For purposes of the ISAs, the term “financial statements” can refer to a complete set of financial statements, ~~but it can also refer to~~ or a single financial statement, ~~for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes~~ Examples of a single financial statement are listed in Appendix 1 to this ISA. [From extant ISA 200.34]
- 1b. 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. For certain financial reporting frameworks, a single financial statement such as a cash flow statement and the related explanatory notes constitutes a complete set of financial statements. For example, the International Public Sector Accounting Standard (IPSAS), “Financial Reporting Under the Cash Basis of Accounting” states that the primary financial statement is a statement of cash receipts and payments when a public sector entity prepares and presents its financial statements in accordance with that IPSAS. Financial statements prepared by reference to International Financial Reporting Standards (IFRSs), on the other hand, are intended to provide information about the financial position, performance and cash flows of an entity. A complete set of financial statements under IFRSs includes a balance sheet; an income statement; a statement of changes in equity; a cash flow statement; and notes, comprising a summary of significant accounting policies and other explanatory notes. [From extant ISA 200.35]
- 1c. Financial statements may be designed to meet the common financial information needs of a wide range of users (referred to as “general purpose financial statements – see paragraph 40) or the financial information needs of specific users (referred to as “special purpose financial statements” – see paragraph 48a). Unless otherwise stated, reference to “financial statements” in the ISAs includes both general purpose and special purpose financial

statements.

Elements, Accounts or Items of a Financial Statement

- 1d. ~~An audit of other historical financial information is an assurance engagement, as defined in the International Framework for Assurance Engagements (the Framework). As explained in paragraph 3 of this ISA, the ISAs apply the International Framework for Assurance Engagements in the context of an audit of financial statements. Pursuant to ISA 200, paragraph 34, the term “financial statements” refers to a complete set of financial statements or a single financial statement. ISA 701, An auditor may, however, also establish standards and provide guidance for auditors’ reports on be engaged to audit one or more specific elements, accounts or items of a financial statement. Examples of a specific element, account or item of a financial statement are listed in Appendix 1 to this ISA. [From extant ED-ISA 701.6]~~
- 1e. ~~ISA 200, paragraph 4, requires the auditor to comply with relevant ethical requirements relating to an audit engagement. ISA 200, paragraph 11, requires the auditor, in determining the audit procedures to be performed in conducting an audit in accordance with ISAs, to comply with each of the ISAs relevant to that audit. These requirements apply to an audit of a specific element, account or item of a financial statement. [From ED-ISA 701.7]~~
- 1f. ~~If an audit of a specific element, account or item of a financial statement is conducted in conjunction with the audit of the financial statements of which it forms a part, this is unlikely to cause difficulty the auditor may be able to use audit evidence obtained as part of the audit of the financial statements in the audit of the specific element, account or item. It is important, however, that the auditor plans and performs the audit of the specific element, account or item to obtain sufficient appropriate audit evidence to reduce audit risk for that specific element, account or item to an acceptably low level. For example, the materiality level determined for the specific element, account or item may be lower than the materiality level determined for the financial statements as a whole; this will affect the nature, timing and extent of the audit procedures. [From ED-ISA 701.7]~~
- 1g. ~~If such an audit of a specific element, account or item of a financial statement, however, is carried out conducted separately from the audit of the financial statements of which it forms a part, compliance with each of the ISAs relevant to the audit requires careful consideration and may not be practicable. Where an audit in accordance with ISAs is not practicable, the auditor discusses with the responsible party management, before accepting the engagement, whether another type of engagement may be more practicable. [From ED-ISA 701.7]~~

Objective of an Audit of Financial Statements

- 2. The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.**
- 3. An audit of financial statements is an assurance engagement, as defined in the International Framework for Assurance Engagements. The Framework defines and**

describes the elements and objectives of an assurance engagement. The ISAs apply the Framework in the context of an audit of financial statements and contain the basic principles and essential procedures, together with related guidance, to be applied in such an audit. Paragraphs **3433-3536** in this ISA discuss ~~the meaning of the term “financial statements”~~ and management’s responsibility for ~~such statements~~ the financial statements.
[Part of text of this paragraph moved to 36a]

Ethical Requirements Relating to an Audit of Financial Statements

4. **The auditor should comply with relevant ethical requirements relating to audit engagements.**
5. As discussed in ISA 220, “Quality Control for Audits of Historical Financial Information,” ethical requirements relating to audits of financial statements ordinarily comprise Parts A and B of the International Federation of Accountants’ *Code of Ethics for Professional Accountants* (IFAC Code) together with national requirements that are more restrictive. ISA 220 identifies the fundamental principles of professional ethics established by Parts A and B of the IFAC Code and sets out the engagement partner’s responsibilities with respect to ethical requirements. ISA 220 recognizes that the engagement team is entitled to rely on a firm’s systems in meeting its responsibilities with respect to quality control procedures applicable to the individual audit engagement (for example, in relation to capabilities and competence of personnel through their recruitment and formal training; independence through the accumulation and communication of relevant independence information; maintenance of client relationships through acceptance and continuance systems; and adherence to regulatory and legal requirements through the monitoring process), unless information provided by the firm or other parties suggests otherwise. Accordingly, International Standard on Quality Control (ISQC) 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements,” requires the firm to establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements.

Conduct of an Audit of Financial Statements

6. **The auditor should conduct an audit in accordance with International Standards on Auditing.**
7. ISAs contain basic principles and essential procedures together with related guidance in the form of explanatory and other material, including appendices. The basic principles and essential procedures are to be understood and applied in the context of explanatory and other material that provide guidance for their application. The text of a whole Standard is considered in order to understand and apply the basic principles and essential procedures.
8. In conducting an audit in accordance with ISAs, the auditor is also aware of and considers International Auditing Practice Statements (IAPSs) applicable to the audit engagement. IAPSs provide interpretive guidance and practical assistance to auditors in implementing ISAs. An auditor who does not apply the guidance included in a relevant IAPS needs to be prepared to explain how the basic principles and essential procedures in the Standard

addressed by the IAPS have been complied with.

9. The auditor may also conduct the audit in accordance with both ISAs and auditing standards of a specific jurisdiction or country.

Scope of an Audit of Financial Statements

10. The term “scope of an audit” refers to the audit procedures that, in the auditor’s judgment and based on the ISAs, are deemed appropriate in the circumstances to achieve the objective of the audit.
11. **In determining the audit procedures to be performed in conducting an audit in accordance with International Standards on Auditing, the auditor should comply with each of the International Standards on Auditing relevant to the audit.**
12. In performing an audit, auditors may be required to comply with other professional, legal or regulatory requirements in addition to the ISAs. The ISAs do not override the local laws and regulations that govern an audit of financial statements. In the event that those laws and regulations differ from the ISAs, an audit conducted in accordance with the local laws and regulations will not automatically comply with ISAs.
13. When the auditor conducts the audit in accordance with ISAs and auditing standards of a specific jurisdiction or country, in addition to complying with each of the ISAs relevant to the audit, the auditor also performs any additional audit procedures necessary to comply with the relevant standards of that jurisdiction or country.
14. **The auditor should not represent compliance with International Standards on Auditing unless the auditor has complied fully with all of the International Standards on Auditing relevant to the audit.** [*Note: ISA 230 (Revised), “Audit Documentation” issued in September 2005 gave rise to the following conforming amendment to ISA 200. The following sentences are inserted at the end of paragraph 14: “The auditor may, in exceptional circumstances, judge it necessary to depart from a basic principle or an essential procedure that is relevant in the circumstances of the audit, in order to achieve the objective of the audit. In such a case, the auditor is not precluded from representing compliance with ISAs, provided the departure is appropriately documented as required by ISA 230, ‘Audit Documentation.’” The conforming amendment is effective for audits of financial statements for periods beginning on or after June 15, 2006.*]

Professional Skepticism

[No changes are proposed to paragraphs 15-16. These paragraphs are also not necessary to provide context to the proposed changes. As a result, they have not been reproduced here.]

Reasonable Assurance

[No changes are proposed to paragraphs 17-21. These paragraphs are also not necessary to provide context to the proposed changes. As a result, they have not been reproduced here.]

Audit Risk and Materiality

[No changes are proposed to paragraphs 22-32. These paragraphs are also not necessary to provide context to the proposed changes. As a result, they have not been reproduced here.]

Responsibility for the Financial Statements

33. While the auditor is responsible for forming and expressing an opinion on the financial statements, the responsibility for the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework is that of the management¹ of the entity, with oversight from those charged with governance.² The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
34. [Moved to ISA 200.1a]
35. [Moved to ISA 200.1b]
36. Management is responsible for identifying the financial reporting framework to be used in the preparation and presentation of the financial statements. Management is also responsible for preparing and presenting the financial statements in accordance with that **applicable** financial reporting framework. 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.

Determining the Acceptability of the Financial Reporting Framework³ **Adopted by Management in Preparing the Financial Statements**

36a. As discussed in the International Framework for Assurance Engagements, a condition for acceptance of an assurance engagement is that the criteria referred to in the definition of an assurance engagement are “suitable criteria”² and available to intended users (see paragraph 48g). Criteria are the benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. Suitable criteria are required for reasonably consistent evaluation or measurement of a subject matter within the context of professional judgment. ~~Paragraphs 37-48 in this ISA discuss suitable criteria and their availability to intended users for an audit of financial statements through the auditor’s~~

¹ The term “management” has been used in this ISA to describe those responsible for the preparation and presentation of the financial statements. Other terms may be appropriate depending on the legal framework in the particular jurisdiction.

² The structures of governance vary from country to country, reflecting cultural and legal backgrounds. Therefore, the respective responsibilities of management and those charged with governance vary depending on the legal responsibilities in the particular jurisdiction.

³ ~~Implementation of paragraphs 37-48 has been deferred until such time as proposed ISA 701, “The Independent Auditor’s Report on Other Historical Financial Information” becomes effective (a date yet to be determined).~~

~~consideration of the acceptability of the financial reporting framework.~~⁴ [From extant ISA 200.3]

36b. For purposes of these ISAs, ~~the criteria used to evaluate or measure the preparation and presentation of financial statements are referred to as~~ the financial reporting framework. ~~Many financial reporting frameworks set out the sources from which supporting guidance may be obtained (sometimes referred to as the “hierarchy of authority”). Accordingly, the financial reporting framework may also encompass:~~

- ~~Accounting standards established by authorized or recognized standards setting organizations;~~
- ~~Legislative and regulatory requirements;~~
- The effect of the legal and ethical environment, including statutes, regulations, court decisions, and professional ethical obligations in relation to accounting matters;
- Published views of varying authority on emerging accounting issues and accounting interpretations issued by standards setting, professional or regulatory organizations;
- Industry practices widely recognized and prevalent;
- Accounting literature; and
- ~~In the case of special purpose financial statements, the financial reporting~~ provisions of a contract, including significant interpretations made by the responsible party in preparing and presenting the financial ~~information statements~~. (An interpretation is significant if another reasonable interpretation would have produced a material difference in the ~~other historical~~ financial information.) [From ED-ISA 701.10]

36c. ~~The auditor identifies the different sources from which management has obtained guidance for application of the financial reporting framework adopted by management in preparing the financial statements. The auditor considers the relative authority of the identified sources, determines that there are no conflicts amongst them, and that they collectively constitute a financial reporting framework. Where conflicts exist, the source with the highest authority prevails.~~

37. **The auditor should determine whether the financial reporting framework adopted by management in preparing the financial statements is acceptable.** The auditor ordinarily makes this determination when considering whether to accept the audit engagement, as discussed in ISA 210, “Terms of Audit Engagements.” An acceptable financial reporting framework is referred to in the ISAs as the “applicable financial reporting framework.”

37a. ~~An A~~ acceptable financial reporting frameworks ~~for general purpose financial statements~~ normally exhibit~~s~~ the following attributes that result in information provided in financial statements that is useful to ~~the intended~~ users:

⁴—Implementation of the final sentence of paragraph 3 has been deferred until such time as proposed ISA 701, “The Independent Auditor’s Report on Other Historical Financial Information” becomes effective (a date yet to be determined).

- (a) Relevance, in that the information provided in the financial statements is relevant to the nature of the entity and the objective of the financial statements. (For example, ~~in the case of a business enterprise that prepares general purpose financial statements, relevance is assessed in terms of the information necessary to meet the common financial information needs of a wide range of users in making economic decisions. These needs are ordinarily met by presenting ~~fairly~~ the financial position, financial performance and cash flows of the business enterprise. In the case of special purpose financial statements, however, relevance is assessed in terms of the information necessary to meet the financial information needs of specific users.)~~
- (b) Completeness, in that transactions and events, account balances and disclosures that could affect ~~the fair presentation of conclusions based on~~ the financial statements are not omitted.
- (c) Reliability, in that the information provided in the financial statements: results in reasonably consistent evaluation, measurement, presentation and disclosure, when used in similar circumstances.
- ~~(i) Reflects the economic substance of events and transactions and not merely their legal form; and [Note: Text to be moved to ISA 700 (Revised). To form part of the section on forming an opinion, i.e., part of determining whether the financial statements give a true and fair view or are fairly presented in all material respects.]~~
- ~~(ii) Results in reasonably consistent evaluation, measurement, presentation and disclosure, when used in similar circumstances;~~
- (d) Neutrality, in that it contributes to information in the financial statements that is free from bias; ~~and~~
- (e) Understandability, in that the information in the financial statements is clear and comprehensive and not subject to significantly different interpretation. **[From extant ISA 200.44]**
38. Factors that may affect ~~the auditor's~~ ~~determines~~ ~~determination~~ ~~whether~~ of the acceptability of the financial reporting framework adopted by management in preparing the financial statements is acceptable in view of include the following:
- (a) ~~the~~ The nature of the entity (for example, whether it is a business enterprise, a public sector entity or a not for profit organization); ~~and~~
- (b) ~~the~~ The objective of the financial statements (for example, whether the financial statements are designed to meet the financial information needs of specific users or the common financial information needs of a wide range of users);
- (c) The nature of the financial statements (for example, whether it is a complete set of financial statements or a single financial statement);
- (e) The applicable legislative and regulatory requirements; and

(f) Other matters, such as events, transactions, conditions and practices that may have a significant effect on the engagement.

38a. When the auditor concludes that the financial reporting framework adopted by management is not acceptable, the auditor considers the implications in relation to engagement acceptance (see ISA 210) and the auditor's report (see [proposed] ISA 70+5, "Modifications to the Opinion in the Independent Auditor's Report" and ISA 706), "Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor's Report" discuss the implications for engagement acceptance and the auditor's report when the auditor concludes that the financial reporting framework adopted by management in preparing the financial statements is not acceptable. [From extant ISA 200.48]

~~Financial Statements Designed to Meet the Financial Information Needs of Specific Users~~

39. [Moved to ISA 200.38a]

~~Financial Statements Reporting Frameworks~~ Designed to Meet the Common Financial Information Needs of a Wide Range of Users

40. Many users of financial statements are not in a position to demand financial statements tailored to meet their specific information needs. While all the information needs of specific users cannot be met, there are financial information needs that are common to a wide range of users. Financial statements prepared in accordance with a financial reporting framework ~~that is~~ designed to meet the common information needs of a wide range of users are referred to as "general purpose financial statements."

~~Financial Reporting Frameworks Accounting Standards~~⁵ Established by Authorized or Recognized ~~Standards Setting~~ Organizations

41. At present, there is no objective and authoritative basis that has been generally recognized globally for judging the acceptability of financial reporting frameworks ~~that have been~~ designed for general purpose financial statements. Until such a basis exists, ~~financial reporting frameworks accounting standards~~ established by organizations that are authorized or recognized to promulgate standards to be used by certain types of entities are presumed to be acceptable for general purpose financial statements prepared by such entities provided the organizations follow an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders. Examples of such ~~financial reporting frameworks accounting standards~~ include:

~~(a)~~ IFRSs promulgated by the International Accounting Standards Board;

~~(b)~~ IPSASs promulgated by the International Federation of Accountants – International Public Sector Accounting Standards Board; and

⁵ Note to IAASB: In accordance with the proposed amendment to paragraph 36b, the "financial reporting framework" may be derived from different sources. These sources are not all established by authorized or recognized standards setting organizations. The Task Force is of the view that such organizations establish accounting standards, which may be supplemented by legislative or regulator requirements (as recognized in ISA 200.42). It may also be supplemented by any of the other sources referred to in ISA 200.36b, subject to them not being in conflict with the accounting standards. The Task Force therefore changed the term "financial reporting standards" to "accounting standards," where appropriate.

~~(iii)~~ Generally accepted accounting principles promulgated by a recognized standards setter in a particular jurisdiction.

These ~~financial reporting frameworks~~ accounting standards are often identified as the applicable financial reporting framework to be adopted by management in preparing the financial statements in legislative and regulatory requirements governing the preparation of general purpose financial statements. ~~Refer to ISA 800 for financial reporting frameworks designed to meet the particular needs of a government regulatory agency.~~

Financial Reporting Frameworks Supplemented with Legislative and Regulatory Requirements

42. In some jurisdictions, the financial reporting framework adopted by management in preparing the financial statements may encompass legislative and regulatory requirements, which may supplement ~~a financial reporting framework adopted by management the accounting standards established by an authorized or recognized standards setting organization~~ with additional requirements relating to the preparation and presentation of financial statements. ~~In these jurisdictions, the applicable financial reporting framework, for the purposes of applying the ISAs, encompasses both the identified financial reporting framework and such additional requirements, provided they do not conflict with the applicable financial reporting framework.~~ This may, for example, be the case when additional requirements prescribe disclosures in addition to those required by the identified financial reporting framework accounting standards or when they narrow the range of acceptable choices that can be made within the ~~identified financial reporting framework accounting standards~~. If the additional requirements conflict with the ~~applicable financial reporting framework accounting standards~~, the auditor discusses the nature of the requirements with management and whether the additional requirements can be met through additional disclosures. If this is not possible, the auditor considers whether it is necessary to modify the auditor's report, see [proposed] ISA 701-5, "Modifications to the Independent Auditor's Report." and ISA 706.

Jurisdictions that Do Not have an Authorized or Recognized Standards Setting Organization

43. When an entity is registered or operating in a jurisdiction that does not have an authorized or recognized standards setting organization, ~~the entity management~~ identifies an applicable financial reporting framework to be used in preparing the financial statements. Practice in such jurisdictions is often to use ~~a financial reporting framework the accounting standards~~ established by one of the organizations described in paragraph 41. Alternatively, there may be established accounting conventions in a particular jurisdiction that are generally recognized as the ~~applicable~~ financial reporting framework for ~~the~~ general purpose financial statements prepared by certain specified entities operating in that jurisdiction. When such a financial reporting framework is adopted by the entity, the auditor determines whether the accounting conventions collectively can be considered to constitute an acceptable financial reporting framework for general purpose financial statements. When the accounting conventions are widely used in a particular jurisdiction, the accounting profession in that jurisdiction may have considered the acceptability of the financial reporting framework on behalf of the auditors. Alternatively, the auditor makes this determination by considering whether the accounting conventions exhibit attributes

normally exhibited by acceptable financial reporting frameworks (see paragraph 37a), or by comparing the accounting conventions to the requirements of an existing financial reporting framework considered to be acceptable. ~~The auditor may decide to compare the accounting conventions to the requirements of an existing framework considered to be acceptable such as, f~~ For example, the auditor may compare the accounting conventions to IFRSs promulgated by the International Accounting Standards Board. For an audit of a small entity, the auditor may decide to compare ~~such the~~ accounting conventions to a financial reporting framework specifically developed for such entities by an authorized or recognized standards setting organization. When the auditor makes such a comparison and differences are identified, the decision as to whether the accounting conventions adopted by management in preparing the financial statements constitute an acceptable financial reporting framework includes consideration of the reasons for the differences and whether application of the accounting conventions, or the description of the financial reporting framework, could result in financial statements that are misleading. [From extant ISA 200.48]

44. [Moved to ISA 200.37a]

45. A conglomeration of accounting conventions devised to suit individual preferences is not an acceptable financial reporting framework for financial statements intended to address the common information needs of a wide range of users.

46. [Moved to ISA 200.48g]

47. [Moved to ISA 200.43]

48. [Moved to ISA 200.38a]

Financial Statements Reporting Frameworks Designed to Meet the Financial Information Needs of Specific Users

48a. In some cases, the objective of the financial statements will be to meet the financial information needs of specific users. Such financial statements are referred to as “special purpose financial statements.” The financial information needs of such users will determine the applicable financial reporting framework in these circumstances. Examples of financial reporting frameworks ~~that address designed to meet~~ the financial information needs of specific users are:

(a) ~~a~~ A tax basis of accounting for a set of financial statements that accompany an entity’s tax return;

(b) The cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors;

(c) ~~†~~ The financial reporting provisions of a government regulatory agency for a set of financial statements established by a regulator to meet the information needs requirements of that agency regulator; or

(d) The financial reporting framework established by the provisions of an agreement a contract specifying the financial statements to be prepared, such as a bond indenture or a loan agreement. [Moved from extant ISA 200.39]

- ~~48b. Financial statements prepared in accordance with such financial reporting frameworks may be the only financial statements prepared by an entity and, in such circumstances, are often used by users in addition to 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 designed to meet the financial information needs of specific users for purposes of the ISAs. ISA 800, “The Independent Auditor’s Report on Special Purpose Audit Engagements” establishes standards and provides guidance on financial statements whose objective is to meet the financial information needs of specific users. Although specific users may not be identified, financial statements that are prepared in accordance with a framework that is not designed to achieve fair presentation are also addressed in ISA 800. [Moved from extant ISA 200.39]~~
- ~~48c. Where the financial reporting framework consists of accounting standards established by organizations that are authorized or recognized to promulgate standards for special purpose financial statements, those standards will be presumed to be acceptable for that purpose, provided the organizations follow an established and transparent process involving deliberation and consideration of the views of relevant stakeholders. The financial reporting provisions established by a regulator to meet the requirements of that regulator are also presumed to be acceptable for special purpose financial statements.~~
- ~~48d. Where the accounting standards referred to in paragraph 48c are supplemented by legislative and regulatory requirements, the auditor determines whether any conflicts between the accounting standards and the additional requirements exist. If such conflicts exist, the auditor follows the procedures in paragraph 42.~~
- ~~48e. Where the financial reporting framework encompass sources other than, or in addition to, accounting standards referred to in paragraph 48c and legislative and regulatory requirements referred to in paragraph 48d, the auditor determines whether the financial reporting framework is acceptable in the circumstances by considering whether it exhibits attributes normally exhibited by acceptable financial reporting frameworks (see paragraph 37a). In the case of a financial reporting framework designed to meet the financial information needs of specific users, the relative importance of each of these characteristics to a particular engagement is a matter of professional judgment, and depends on the nature of the entity and its environment, the nature and objective of the other historical financial information, the information needs of the intended users, and other matters, for example, events, transactions, conditions and practices that may have a significant effect on the engagement. For example, for the 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 that very prudent estimates of allowances for uncollectible accounts receivable are to be made. This may result in preparing financial information that is not neutral (see paragraph 36(d) of the Framework), but it may nevertheless be acceptable in the circumstances. [From ED-ISA 701.11]~~
- ~~48f. There is a presumption that partial compliance with the requirements of an established financial reporting framework does not constitute an acceptable financial reporting framework. However, there may be circumstances where the nature of the entity and its~~

~~environment, the nature and objective of the other historical financial information, or the information needs of the intended specific users may justify partial compliance with only the those requirements elements of an established financial reporting framework relevant to the financial information being presented. For example, the financial reporting provisions of a contract may require the preparation of a balance sheet in accordance with the elements of IFRSs relevant to preparing a balance sheet. When this is the case, the auditor determines whether the financial reporting framework is acceptable in the circumstances by considering whether it exhibits attributes normally exhibited by acceptable financial reporting frameworks (see paragraph 37a). Furthermore, the description of the financial reporting framework in the other historical financial information statements (see paragraph 48g) does not imply full compliance with the requirements of the established financial reporting framework. For example, pursuant to the financial reporting provisions of the contract, the balance sheet prepared in accordance with those elements of IFRSs relevant to preparing a balance sheet is described as “prepared in accordance with the financial reporting provisions set out in paragraph x of the contract.”~~ [From ED-ISA 701.12]

Description of the Financial Reporting Framework in the Financial Statements

~~48g. According to the International Framework for Assurance Engagements, criteria need to be available to the intended users to allow them to understand how the subject matter has been evaluated and measured. To enable readers the intended users to understand the financial reporting framework adopted by the responsible party management for preparing and presenting the other historical financial information financial statements, it is necessary to refer to or describe the applicable financial reporting that framework adequately in the other historical financial information financial statements. The description of the financial reporting framework in the financial statements includes information about the basis of preparation of the financial statements and the accounting policies selected and applied for significant transactions and other significant events. If management does not adequately refer to or describe the financial reporting framework adopted in preparing the financial statements, the auditor should consider the effect on the auditor’s report.~~ [From extant ISA 200.46 and ED-ISA 701.13]

Expressing an Opinion on the Financial Statements

[The Task Force intends to amend paragraphs 49 and 50 to apply to auditors’ reports on general purpose and special purpose financial statements and to be in line with the IAASB’s direction on form of opinion (see Issue 3, Agenda Item 8-A).]

Effective Date

52. This ISA is effective for audits of financial statements for periods beginning on or after [date].

Public Sector Perspective

[No changes are proposed to the PSP. The PSP is also not necessary to provide context to the proposed changes. As a result, it has not been reproduced here.]

Appendix 1

Examples of a Single Financial Statement and Examples of a Specific Element, Account or Item of a Financial Statement

Examples of a single financial statement include the following:

- Balance sheet and related explanatory notes.
- Statement of income or statement of operations and related explanatory notes.
- Statement of retained earnings and related explanatory notes.
- Statement of cash flows and related explanatory notes.
- Statement of changes in owners' equity and related explanatory notes.
- Statement of assets and liabilities that does not include owners' equity and related explanatory notes.
- Statement of revenue and expenses and related explanatory notes.
- Statement of operations by product lines and related explanatory notes.
- Statement of cash receipts and disbursements and related explanatory notes.

Examples of specific elements, accounts or items of a financial statement include the following:

- 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.
- A schedule of externally managed assets and income of a private pension plan.
- A schedule of net tangible assets.
- A schedule of disbursements in relation to a lease property.
- A schedule of profit participation or employee bonuses.
- ~~A schedule of share price movements and of average share price.~~

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