



July 2005

To: **Members of the Hong Kong Institute of CPAs**  
**All other interested parties**

## **IAASB EXPOSURE DRAFTS**

- **ISA 701 “THE INDEPENDENT AUDITOR’S REPORT ON OTHER HISTORICAL FINANCIAL INFORMATION”**
- **ISA 800 “THE INDEPENDENT AUDITOR’S REPORT ON SUMMARY AUDITED FINANCIAL STATEMENTS”**

*Comments to be received by 7 October 2005*

The Hong Kong Institute of Certified Public Accountants’ (Institute) Auditing and Assurance Standards Committee is seeking comments on the IAASB Exposure Drafts which have been posted on the Institute’s website at:

[www.hkicpa.org.hk/professionaltechnical/assurance/exposedraft/](http://www.hkicpa.org.hk/professionaltechnical/assurance/exposedraft/).

In accordance with the Institute’s ISA Convergence Due Process, comments are invited from any interested party and the Institute would like to hear from both those who do agree and those who do not agree with the proposals contained in the IAASB Exposure Drafts. Comments should be supported by specific reasoning and should be submitted in written form.

The Explanatory Memorandum to the Exposure Drafts provides background information and explanation of the proposed Standards and raises seven questions for commentators to respond on the significant proposals.

To allow your comments on the IAASB Exposure Drafts to be considered, they are requested to be received by the Institute on or before **7 October 2005**. Comments may be sent by mail, fax or e-mail to:

Stephen Chan  
Executive Director  
Hong Kong Institute of CPAs  
4th Floor Tower Two, Lippo Centre  
89 Queensway  
Hong Kong

Fax number (+852) 2865 6776  
E-mail: [commentletters@hkicpa.org.hk](mailto:commentletters@hkicpa.org.hk)

Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

July 2005  
Exposure Drafts

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Response Due Date  
7 October 2005

*ED of proposed ISA 701*

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## The Independent Auditor's Report on Other Historical Financial Information

*ED of proposed ISA 800*

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## The Independent Auditor's Report on Summary Audited Financial Statements



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

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Proposed ISA 701, “The Independent Auditor’s Report on Other Historical Financial Information”

Proposed ISA 800, “The Independent Auditor’s Report on Summary Audited Financial Statements”

IAASB Press release

These Exposure Drafts may be filed in the “Exposure Drafts, Invitations to Comment” section of Volume III of the Institute Members’ Handbook.

The Exposure Drafts can also be found on the Institute’s website at:  
[www.hkicpa.org.hk/professionaltechnical/assurance/exposedraft/](http://www.hkicpa.org.hk/professionaltechnical/assurance/exposedraft/)

*Proposed International Standard on Auditing 701*

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## The Independent Auditor's Report on Other Historical Financial Information

*Proposed International Standard on Auditing 800*

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## The Independent Auditor's Report on Summary Audited Financial Statements



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## REQUEST FOR COMMENTS

This exposure draft of the International Auditing and Assurance Standards Board (IAASB) was approved for publication in June 2005. The proposed revised International Standard on Auditing (ISA) may be modified in light of comments received before being issued in final form.

Comments should be submitted so as to be received by **October 31, 2005** preferably by e-mail or on computer disk, or in writing. All comments will be considered a matter for the public record. Comments should be addressed to:

Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14 Floor  
New York, New York 10017 USA

Email responses should be sent to: [Edcomments@ifac.org](mailto:Edcomments@ifac.org)

The approved text of this exposure draft is published in the English language. In order to achieve maximum exposure and feedback, the International Federation of Accountants encourages the reproduction of this publication in any format.

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## **EXPLANATORY MEMORANDUM**

### **Introduction**

This memorandum provides background to and an explanation of proposed International Standard on Auditing (ISA) 701, “The Independent Auditor’s Report on Other Historical Financial Information” and proposed ISA 800, “The Auditor’s Report on Summary Audited Financial Statements,” approved for exposure by the International Auditing and Assurance Standards Board (IAASB) in June 2005. These proposed ISAs represent a revision of the standards and guidance in extant ISA 800, “The Auditor’s Report on Special Purpose Audit Engagements.” Comments on the proposals are due to be received by IAASB by October 31, 2005.

### **Background**

Extant ISA 800 was last revised in March 1994. ISA 700 (Revised), “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” and conforming amendments to ISA 200, “Objective and General Principles Governing an Audit of Financial Statements,” which were approved in December 2004, not only gave rise to conforming amendments to extant ISA 800, but also highlighted the need for a more comprehensive revision. In particular, the scope of ISA 700 (Revised) was limited to an auditor’s report on a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation. Consequently, the scope of proposed ISA 701 was expanded beyond auditors’ reports for special purpose audit engagements to include auditors’ reports for engagements to audit general purpose financial statements that do not meet the scope of ISA 700 (Revised).

### **Proposed ISA Establishing Standards and Guidance for Auditors’ Reports on Summary Audited Financial Statements**

Standards and guidance on the auditor’s report on summary audited financial statements are contained in paragraphs 21-25 of extant ISA 800. The proposal to revise extant ISA 800 recommended that consideration be given to the nature of an engagement to report on summary audited financial statements, that is, whether it is an audit, an other assurance engagement, or a related services engagement, and whether the related standards and guidance should be retained within proposed ISA 701.

The IAASB concluded that, because summary financial statements are derived from audited financial statements and the auditor’s report on summary financial statements is closely linked to the auditor’s report on the financial statements from which they have been derived, the standards and guidance should form part of the ISAs. There are, however, significant differences between auditors’ reports on financial statements, and those on summary financial statements, and the underlying work to be carried out by the auditor. The IAASB is therefore of the view that the standards and guidance in respect of summary financial statements would be better placed in a separate ISA, that is, ISA 800, “The Independent Auditor’s Report on Summary Audited Financial Statements.”

**Question 1: Do you agree with the IAASB’s conclusion that the standards and guidance for auditors’ reports on summary audited financial statements should be retained within ISAs? If yes, do you agree that the standards and guidance should be placed in a separate ISA?**

## **Significant Proposals**

### **Proposed ISA 701**

#### *Applicable Financial Reporting Framework*

Paragraphs 9-12 of proposed ISA 701 provide guidance on applying the requirement in paragraph 37 of ISA 200 for the auditor to determine whether the financial reporting framework adopted by the responsible party in preparing and presenting the other historical financial information is acceptable. With respect to this determination, paragraph 10 explains that, for purposes of the proposed ISA, the financial reporting framework may encompass a number of sources of varying authority, that is, a financial reporting framework may encompass more than just accounting standards and legal requirements. Furthermore, unless the financial reporting framework is an established financial reporting framework recognized as suitable for the intended use, or specifically required to be used by law or regulation, the auditor considers whether it exhibits the characteristics of suitable criteria described in paragraph 36 of the International Framework for Assurance Engagements (the Framework).

**Question 2: Do you agree with the description in paragraph 10, acknowledging that, depending on the circumstances of the engagement, the applicable financial reporting framework may encompass more than just accounting standards and legal requirements?**

#### *Form of Opinion*

In line with ISA 700 (Revised), proposed ISA 701 distinguishes between financial reporting frameworks designed to achieve fair presentation and other financial reporting frameworks. This distinction affects the form of opinion. Paragraphs 15-16 explain that the auditor uses the terms “give a true and fair view” or “are presented fairly, in all material respects,” to express the audit opinion on other historical financial information prepared in accordance with a financial reporting framework designed to achieve fair presentation of the specific information presented. In the case of other historical financial information prepared in accordance with a financial reporting framework not designed to achieve fair presentation of the specific information presented, the auditor expresses an opinion on the appropriateness of the preparation and presentation of the financial information in accordance with the framework. The auditor uses the term “properly prepared, in all material respects, in accordance with the applicable financial reporting framework” to express the audit opinion.

The reason for this approach is to limit the use of the terms “give a true and fair view” or “are presented fairly, in all material respects,” to those cases where the framework is intended to provide a fair presentation. Under some frameworks, only a complete set of financial statements is regarded as capable of achieving fair presentation; under other frameworks, single financial statements or even one or more specific elements, accounts or items of a financial statement may be so regarded. The IAASB does not believe it would be appropriate for an auditing standard to override the requirements of an acceptable framework (by mandating a form of opinion

independent of the framework), or to place on the auditor a responsibility to evaluate the presentation of the information to a standard different from that imposed on the preparer by the framework.

**Question 3: Do you agree with the proposed distinction in paragraphs 15 and 16, and the effect that it has on the form of opinion? If not, clearly explain your preferred distinction and the effect that it has on the form of opinion?**

*Forming an Opinion*

Where the auditor expresses an opinion that the other historical financial information “gives a true and fair view” or “is presented fairly, in all material respects,” paragraph 23 of proposed ISA 701 provides for the auditor to evaluate the fair presentation of the other historical financial information. The auditor considers the fair presentation of the other historical financial information in accordance with the guidance in paragraphs 14-15 of ISA 700 (Revised).

Paragraph 24 of proposed ISA 701 provides for the auditor to consider whether, in the circumstance of the engagement, the other historical financial information may be misleading. This consideration is irrespective of whether the other historical financial information has been prepared in accordance with a framework designed to achieve fair presentation of the specific information presented. It is based on a requirement of the revised IFAC Code of Ethics for Professional Accountants.

In the case of frameworks designed to achieve fair presentation, this consideration will be encompassed by the evaluation referred to above. In the case of other frameworks, separate consideration is required. Where the auditor is required to report only on whether the other historical financial information has been prepared in accordance with the applicable financial reporting framework (that is, a strict compliance engagement), the IAASB recognizes that fair presentation may not be achieved (or intended). The question whether the information is misleading therefore does not depend on its “fair presentation,” but on the message it conveys in the circumstances of the engagement, including the framework, the needs of the intended users, and other matters.

**Question 4: Do you agree with the proposals for forming an opinion in paragraphs 23 and 24? If not, clearly explain the reasons for the disagreement?**

*Scope*

Proposed ISA 701 contains standards and guidance for auditors’ reports on historical financial information other than a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation. Paragraphs 1-5 explain the scope of proposed ISA 701, and its interrelationship with ISA 700 (Revised) and proposed ISA 705, “Modifications to the Opinion in the Independent Auditor’s Report.”

In particular, paragraph 2 refers to an auditor’s report issued as a result of an audit of one or more specific elements, accounts or items of a financial statement. These types of auditor’s report are issued in various jurisdictions for regulatory and other reasons. Sometimes they may be subject to circumstances specific to the national environment. Although extant ISA 800 contains standards and guidance for such auditors’ reports, one member of the IAASB was of the view

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that the ISAs should not deal with such audit engagements. The majority of IAASB members, however, were of the view that to include the standards and guidance within proposed ISA 701 would contribute to consistency in practice. Consequently the standards and guidance were revised and retained.

A significant matter discussed by the IAASB was the form of opinion to be expressed on one or more specific elements, accounts or items of a financial statement. The relevant example auditor's report in extant ISA 800 provides for a true and fair, or fair presentation, opinion on a schedule of accounts receivable. Some, however, believe that such an opinion cannot be expressed on the limited information provided by one or more specific elements, accounts or items of a financial statement. As discussed above, proposed ISA 701 provides for the form of opinion to be determined in general by the requirements of the applicable financial reporting framework; if the framework establishes fair presentation of the specific information presented, the audit opinion would follow that requirement. The majority of IAASB members agreed that, to the extent frameworks exist that contemplate the fair presentation of one or more specific elements, accounts or items of a financial statement, proposed ISA 701 should provide the related standards and guidance for the auditor's report thereon.

Two members of the IAASB were concerned that the extension of the financial reporting framework in paragraph 10 of proposed ISA 701 may result in true and fair, or fair presentation, opinions on one or more specific elements, accounts or items of a financial statement in inappropriate cases. Other IAASB members, however, believed that financial reporting frameworks may encompass more than just accounting standards and legal requirements and, therefore, limiting the sources would put both preparers and auditors at risk of misinterpreting what needs to be considered in fulfilling their respective responsibilities.

**Question 5: Do you agree that the ISAs should contain standards and guidance for an auditor's report issued as a result of an audit of one or more specific elements, accounts or items of a financial statement?**

### *Application of Ethical Requirements and Other ISAs in an Audit to Report on Other Historical Financial Information*

An audit of other historical financial information is an assurance engagement, as defined in the Framework. The ISAs apply the Framework 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, however, also establishes standards and provides guidance for auditors' reports on one or more specific elements, accounts or items of a financial statement.

Paragraphs 4 and 11 of ISA 200 require the auditor to comply (a) with relevant ethical requirements relating to an audit engagement and, (b) in determining the audit procedures to be performed in conducting an audit in accordance with ISAs, with each of the ISAs relevant to that audit. The IAASB concluded that these requirements apply to an audit of one or more specific elements, accounts or items of a financial statement. This may be demanding, but is nevertheless appropriate in the case of an audit of such information. Where an audit of one or more specific elements, accounts or items of a financial statement in accordance with ISAs is not practicable,

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paragraph 7 of proposed ISA 701 recommends that the auditor discuss with the responsible party whether another type of engagement may be more practicable.

**Question 6: If your response to question 5 is yes, do you agree with the proposed standards and guidance for these types of auditor’s report? If not, how should they be amended?**

### **Proposed ISA 800**

#### *Scope*

The standards and guidance in proposed ISA 800 apply when the auditor is engaged to report on a summary of historical financial information derived from historical financial information *audited by that auditor*.

#### *Criteria*

Proposed ISA 800 recognizes that established criteria for preparing and presenting summary financial statements may not exist. Paragraph 12 explains that, when established criteria do not exist, the risk increases that the summary financial statements may not contain the information necessary so as not to be misleading in the circumstances. Consequently, the auditor evaluates whether the criteria applied in preparing and presenting the summary financial statements result in (a) summary financial statements that agree with or can be recalculated from the related information in the financial statements from which they have been derived, and (b) summary financial statements that contain the information necessary so as not to be misleading in the circumstances.

#### *Nature of Procedures*

Paragraph 13 of proposed ISA 800 specifies the procedures that the auditor should perform as the basis for the opinion on the summary financial statements. The procedures include evaluating whether the summary financial statements contain the information necessary so as not to be misleading in the circumstances.

#### *Opinion on Summary Financial Statements*

Extant ISA 800 requires the auditor to report whether the summary financial statements is “consistent, in all material respects” with the historical financial information from which it has been derived. This is used in certain jurisdictions, whether by practice or as required by law or regulation. Other standard setters have chosen different terms, such as “fairly stated, in all material respects, in relation to ...” (United States), and “fairly summarized, in all material respects, ...” (Canada).

It seems that different people may understand the term “consistent” in different ways, perhaps because of translation issues. For example, one view is that summary financial statements, by their nature, cannot be “consistent with” the financial statements from which they have been derived. Another view is that it is not appropriate for the auditor’s procedures to be limited to a “consistency check” (as implied by the wording of the opinion<sup>1</sup> in extant ISA 800). Although

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<sup>1</sup> In accordance with the revised standards and guidance, the auditor’s procedures include an evaluation whether the summary financial statements contain the information necessary so as not to be misleading in the circumstances. The findings of this evaluation are to be reflected in the auditor’s opinion.

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these interpretations are not necessarily shared by the IAASB, it seems desirable to avoid any confusion in the auditor's report.

The IAASB considered the terms "fairly stated, in all material respects" and "fairly summarized, in all material respects." ISA 700 (Revised) and proposed ISA 701 distinguish financial reporting frameworks designed to achieve fair presentation from other frameworks, and provide guidance on the use of the terms "give a true and fair view" and "are presented fairly, in all material respects." Consequently, the use of terms such as "fairly stated, in all material respects," and "fairly summarized, in all material respects" in the opinion on summary financial statements, may be confusing when it is the complete financial information that, if anything, provides fair presentation. Accordingly, the IAASB considered that this form of opinion may not be appropriate.

The IAASB proposes that the auditor express an opinion whether the summary financial statements are an appropriate summary of the financial statements from which they have been derived, in accordance with the specified established criteria or the bases described.

**Question 7: Do you agree with the proposed form of opinion on summary financial statements? If not, provide your preferred form of opinion and reasons for such preference.**

### **Conforming Amendments**

Proposed ISA 701 gave rise to conforming amendments to ISAs 200, 300, and 700 (Revised). These are set out in the appendix to this exposure draft.

In particular, a conforming amendment is proposed to ISA 700 (Revised) to clarify the fact that the standards and guidance in proposed ISA 701 apply to auditors' reports on complete sets of financial statements, which have been prepared in accordance with a financial reporting framework designed for a general purpose to achieve fair presentation, but which will be used for a special purpose. The standards and guidance in paragraphs 29 and 31 apply to these engagements. These paragraphs contain considerations specific to reporting on historical financial information prepared for a special purpose.

Furthermore, the specific standards and guidance in proposed ISA 701 have been limited to those relating to auditor reporting. Some further guidance was considered necessary on planning and materiality considerations. This is proposed to be included in conforming amendments to ISAs 300, "Planning an Audit of Financial Statements," and will be considered in the revision of ISA 320, "Materiality in the Identification and Evaluation of Misstatements."

### **Effective Date**

The IAASB recommends that proposed ISAs 701 and 800 have the same effective date as that of ISA 700 (Revised) and proposed ISAs 705 and 706. This would make them effective for auditors' reports dated on or after December 31, 2006.

### **Guide for Commentators**

The IAASB welcomes comments on proposed ISAs 701 and 800. In addition to the questions set out in this memorandum, the IAASB is seeking comments on all matters addressed in the

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exposure draft. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make explicit suggestions for any proposed changes to wording. When a respondent agrees with proposals in this exposure draft (especially those calling for change in current practice), it will be helpful for the IAASB to be made aware of this view.

Recognizing that the proposed ISAs will apply to audits of all sizes and in all sectors of the economy, the IAASB is also interested in comments on matters set out below:

### **Special Considerations in the Audit of Small Entities**

Consistent with the IAASB's decision to include any special considerations in the audit of small entities within the text of the ISAs, respondents are asked to comment on whether, in their opinion, considerations in the audit of small entities have been dealt with appropriately in the proposed ISAs. Reasons should be provided if not in agreement, as well as suggestions for alternative or additional guidance.

### **Special Considerations in the Audit of Public Sector Entities**

A representative of a working group of the Auditing Standards Committee of the International Organization of Supreme Audit Institutions participated in the development of the proposed ISAs. Special considerations in the audit of public sector entities have been included within the text of the proposed ISAs. Respondents are asked to comment on whether, in their opinion, special considerations in the audit of public sector entities have been dealt with appropriately in the proposed ISAs. Reasons should be provided if not in agreement, as well as suggestions for alternative or additional guidance.

### **Developing Nations**

Recognizing that many developing nations have adopted or are in the process of adopting the ISAs, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in applying the proposed revised ISAs in a developing nation environment.

Reasons should be provided, as well as alternative or additional guidance.

### **Translations**

Recognizing that many respondents intend to translate the proposed ISAs for adoption in their own environments, the IAASB welcomes comment on potential translation issues noted in reviewing this exposure draft.

**PROPOSED INTERNATIONAL STANDARD ON AUDITING 701**

**THE INDEPENDENT AUDITOR’S REPORT ON OTHER  
HISTORICAL FINANCIAL INFORMATION**

(Effective for auditors’ reports issued on or after December 31, 2006)

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International Standard on Auditing (ISA) 701, “The Independent Auditor’s Report on Other Historical Financial Information” should be read in the context of the “Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services,” which sets out the application and authority of ISAs.
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THE INDEPENDENT AUDITOR'S REPORT ON OTHER  
HISTORICAL FINANCIAL INFORMATION

## Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance for the independent auditor's report issued as a result of an audit of historical financial information other than a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation (for purposes of this ISA referred to as "other historical financial information").
2. Other historical financial information includes:
  - A complete set of financial statements prepared in accordance with a financial reporting framework designed for a general purpose, but not designed to achieve fair presentation;
  - A complete set of financial statements prepared in accordance with a financial reporting framework designed for a special purpose;
  - A single financial statement, or statements, that would otherwise be part of a complete set of financial statements (see ISA 200, "Objective and General Principles Governing an Audit of Financial Statements," paragraphs 34-35); and
  - One or more specific elements, accounts or items of a financial statement.

Paragraphs 35-38 contain considerations specific to reporting on a single financial statement or statements, or one or more specific elements, accounts or items of a financial statement.
3. Examples of a single financial statement and a specific element, account or item of a financial statement are listed in Appendix 1 to this ISA. Examples of financial reporting frameworks that may be designed for a special purpose include:
  - A tax basis of accounting;
  - The cash receipts and disbursements basis of accounting for cash flow information that an entity may prepare (for example, a rental property, or an unincorporated association such as a club);
  - The financial reporting provisions established by a regulator to meet the requirements of that regulator; and
  - The financial reporting provisions of a contract, such as a bond indenture or loan agreement.
4. The standards and guidance in this ISA apply when the auditor is able to express an unmodified opinion on the other historical financial information. Proposed ISA 705, "Modifications to the Opinion in the Independent Auditor's Report" establishes standards and provides guidance on circumstances that may result in a modified opinion, the type of modification required, and the form and content of the auditor's report when the opinion is modified. Proposed ISA 706, "Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Auditor's Report" establishes standards and provides guidance on circumstances when the auditor considers including an emphasis of matter paragraph or an other matters paragraph in the auditor's report, and the form and placement of such paragraphs.

THE INDEPENDENT AUDITOR'S REPORT ON OTHER  
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5. This ISA does not establish standards or provide guidance for the following:
- (a) A report issued as a result of an audit of a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation. Standards and guidance for this are contained in ISA 700 (Revised), "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements."
  - (b) A report issued solely to a group auditor by another auditor as a result of an audit performed on a component's financial information for purposes of the audit of group financial statements (see proposed ISA 600 (Revised), "The Audit of Group Financial Statements").
  - (c) A report expressing an opinion on summary historical financial information which has been derived from historical financial information. Standards and guidance for auditors' reports on summary audited financial statements are contained in proposed ISA 800, "The Independent Auditor's Report on Summary Audited Financial Statements."
  - (d) A report confirming that information is an accurate extraction from audited historical financial information.
  - (e) A report issued as a result of a review (i.e., not an audit) of historical financial information. Standards and guidance for this are contained in International Standard on Review Engagements (ISRE) 2400, "Engagements to Review Financial Statements" and ISRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity."
  - (f) An assurance report on information other than historical financial information. This includes a report expressing an opinion on compliance with the provisions of a contract that do not deal with the preparation and presentation of historical financial information. Standards and guidance for this are contained in International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information."

### **Application of Ethical Requirements and Other ISAs**

6. An audit of other historical financial information is an assurance engagement, as defined in the International Framework for Assurance Engagements (the Framework). The ISAs apply the Framework 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, however, also establishes standards and provides guidance for auditors' reports on one or more specific elements, accounts or items of a financial statement.
7. 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. If an audit of a specific element,

THE INDEPENDENT AUDITOR'S REPORT ON OTHER  
HISTORICAL FINANCIAL INFORMATION

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. If such an audit, however, is carried out separately, 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 whether another type of engagement may be more practicable.

8. In applying the ISAs in an audit of other historical financial information, the auditor takes into account the nature of the entity and its environment, the nature and objective of the other historical financial information, the applicable financial reporting framework, 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.

### **Applicable Financial Reporting Framework**

9. ISA 200 describes the auditor's responsibility to determine whether the financial reporting framework adopted by management in preparing and presenting 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," without an acceptable financial reporting framework, the auditor does not have suitable criteria for evaluating the entity's financial statements.
10. Financial reporting frameworks presumed to be acceptable for general purpose financial statements are described in ISA 200. ISA 200, paragraph 45, acknowledges that, in some jurisdictions, legislative and regulatory requirements may supplement a financial reporting framework with additional requirements relating to preparing and presenting the 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. For purposes of this ISA, the financial reporting framework may also encompass:
  - 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
  - The provisions of a contract, including significant interpretations made by the responsible party in preparing and presenting the financial information. (An interpretation is significant if another reasonable interpretation would have produced a material difference in the other historical financial information.)
11. Unless the financial reporting framework is an established financial reporting framework recognized as suitable for the intended use, or specifically required to be used by law or regulation, the auditor considers whether it exhibits the characteristics of suitable criteria described in the Framework, paragraph 36. The relative importance of each of these

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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.

12. 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 users may justify partial compliance with the requirements of an established financial reporting framework. When this is the case, the other historical financial information does not imply full compliance with the requirements of the established financial reporting framework. (See Example 3 of Appendix 2.)
13. To enable readers to understand the financial reporting framework adopted by the responsible party for preparing and presenting the other historical financial information it is necessary to refer to or describe the applicable financial reporting framework adequately in the other historical financial information. **If management does not adequately refer to or describe the financial reporting framework, the auditor should consider the effect on the auditor's report.**

### Form of Opinion

14. ISA 700 (Revised), paragraph 6, explains that, unless required by law or regulation to use different wording, the auditor's opinion on a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation<sup>1</sup> states whether the financial statements "give a true and fair view" or "are presented fairly, in all material respects," in accordance with the applicable financial reporting framework.
15. The auditor also uses the terms "give a true and fair view" or "are presented fairly, in all material respects," to express the audit opinion on other historical financial information prepared in accordance with a financial reporting framework designed to achieve fair presentation of the specific information presented.

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<sup>1</sup> ISA 200, "Objective and General Principles Governing an Audit of Financial Statements" defines "a financial reporting framework designed to achieve fair presentation" as a financial reporting framework that (a) provides a context for the auditor's evaluation of the fair presentation of the financial statements, and (b) acknowledges, implicitly or explicitly, that to achieve the objective of fair presentation of the financial statements (i) it may be necessary for management to provide disclosures beyond the specific requirements of the framework, or (ii) in extremely rare circumstances, it may be necessary for management to depart from the specific requirements of the framework.

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16. In the case of other historical financial information prepared in accordance with a financial reporting framework not designed to achieve fair presentation of the specific information presented, the auditor expresses an opinion on the appropriateness of the preparation and presentation of the other historical financial information in accordance with the applicable financial reporting framework. The auditor uses the term “properly prepared, in all material respects, in accordance with the applicable financial reporting framework” to express the audit opinion. The financial reporting framework may be designed for a general or special purpose.
17. In some jurisdictions, law or regulation governing the audit of other historical financial information may prescribe wording for the audit opinion that is different from the phrases described in paragraphs 15 and 16. Although the auditor may be obliged to use the prescribed wording, the auditor’s responsibilities as described in this ISA for forming the opinion remain the same.
18. When wording prescribed by law or regulation differs significantly from the phrases in paragraphs 15 and 16, the auditor carefully considers whether there may be a risk that users might misunderstand the assurance obtained in the audit of the other historical financial information. In such circumstances, the auditor considers whether the risk of misunderstanding can be mitigated through appropriate explanation in the auditor’s report (see proposed ISA 706).
19. When wording prescribed by law or regulation implies or requires a level of assurance different from that ordinarily obtained in an audit of other historical financial information (for example, when it requires a certification of fact), the auditor confirms the required level of assurance with the responsible party, and considers carefully whether the required level of assurance can be obtained, for example, by amending the scope of the audit. **If the auditor concludes that the required level of assurance cannot be obtained, the auditor should not accept the engagement.**

### **Forming an Opinion on the Other Historical Financial Information**

20. **The auditor should evaluate the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the other historical financial information.**
21. When forming an opinion on the other historical financial information, the auditor evaluates whether, based on the audit evidence obtained, there is reasonable assurance about whether the financial information taken as a whole is free from material misstatement. This involves concluding whether sufficient appropriate audit evidence has been obtained to reduce to an acceptably low level the risks of material misstatement of the other historical financial information<sup>2</sup> and evaluating the effects of uncorrected misstatements identified.<sup>3</sup>
22. The auditor also evaluates whether the financial information has been prepared and presented, in all material respects, in accordance with the specific requirements of the applicable financial reporting framework. This evaluation includes considering whether, in view of the specific requirements of the applicable financial reporting framework:

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<sup>2</sup> See ISA 330, “The Auditor’s Procedures in Response to Assessed Risks.”

<sup>3</sup> See ISA 320, “Audit Materiality.”

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- (a) The terminology used in the other historical financial information, including its title, is appropriate;
  - (b) The accounting policies selected and applied are appropriate;
  - (c) Accounting estimates, if any, made by the responsible party are reasonable;
  - (d) Related parties and related party transactions disclosed by the responsible party are complete and accurate;
  - (e) The other historical financial information, including the accounting policies, is relevant, reliable, comparable and understandable;
  - (f) The other historical financial information adequately refers to or describes the applicable financial reporting framework; and
  - (g) The other historical financial information adequately discloses the significant accounting policies applied, and significant interpretations by the responsible party of regulatory, legal or contractual requirements. In jurisdictions where the applicable financial reporting framework is so codified as to preclude a choice of accounting policies or significant interpretations by the responsible party, a reference to the applicable financial reporting framework may suffice; and
  - (h) The other historical financial information provides adequate disclosures to enable the intended users to understand the effects of material transactions and events on the financial information.
23. Forming an opinion as to whether the other historical financial information gives a true and fair view or is presented fairly, in all material respects, in accordance with the applicable financial reporting framework (see paragraph 15), also involves evaluating the fair presentation of the other historical financial information.<sup>4</sup> The auditor considers the fair presentation of the other historical financial information in accordance with the guidance in ISA 700 (Revised), paragraphs 14-15.
24. The Code of Ethics for Professional Accountants issued by the International Federation of Accountants (IFAC) states that professional accountants should not be associated with reports, returns, communications or other information where they believe that the information (a) contains a material false or misleading statement, (b) contains statements or information furnished recklessly, or (c) omits or obscures information required to be included where such omission or obscurity would be misleading. Accordingly, even where the other historical financial information has been prepared in accordance with a framework not designed to achieve fair presentation of the specific information presented, the auditor considers whether the information may be misleading in view of the nature of the entity and its environment, the nature and objective of the financial information, the applicable financial reporting framework and legal or regulatory requirements, 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.

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<sup>4</sup> As indicated in paragraph 17, this responsibility applies where the financial reporting framework is designed to achieve fair presentation, even though the auditor may be required to report in other terms (such as whether the other historical financial information has been properly prepared in accordance with the applicable financial reporting framework).

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25. If, based on the auditor's considerations discussed in paragraphs 23 or 24, the auditor concludes that the other historical financial information is misleading in the circumstances, the auditor discusses the matter with the responsible party and considers the effect on the auditor's report. The effect will depend on how the responsible party addresses the matter in the other historical financial information.

### **Elements of the Auditor's Report**

26. The content of the auditor's report on other historical financial information is a matter of professional judgment. **At a minimum, the auditor's report on other historical financial information should include the following elements:**
- (a) **A title clearly identifying it as the report of an independent auditor.<sup>5</sup>**
  - (b) **An addressee.**
  - (c) **An introductory paragraph that:**
    - (i) **Identifies the entity whose other historical financial information has been audited;**
    - (ii) **Identifies the other historical financial information that was audited; and**
    - (iii) **States that the other historical financial information has been audited.**
  - (d) **Identification of the responsible party, and a description of that party's responsibility for preparing and presenting the other historical financial information<sup>6</sup> in accordance with the applicable financial reporting framework.**
  - (e) **A statement that the auditor is responsible for expressing an opinion on the other historical financial information based on the audit.**
  - (f) **A scope paragraph that includes:**
    - (i) **A statement that the audit was conducted in accordance with ISAs;**
    - (ii) **An explanation that those standards require that the auditor comply with ethical requirements, and that the auditor plan and perform the audit to obtain reasonable assurance whether the other historical financial information is free from material misstatement; and**
    - (iii) **A description of an audit.**
  - (g) **A statement that the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.**
  - (h) **A paragraph containing a clear expression of opinion on the other historical financial information that refers to the applicable financial reporting framework.**

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<sup>5</sup> A title indicating the report is the report of an independent auditor, for example, "Independent Auditor's Report," affirms that the auditor has met all of the relevant ethical requirements regarding independence, and, therefore, distinguishes the independent auditor's report from reports issued by others.

<sup>6</sup> Where the terms "give a true and fair view" or "are presented fairly, in all material respects," are used to express the auditor's opinion on other historical financial information, the auditor's report refers to "the preparation and *fair* presentation of the other historical financial information" instead of "preparation and presentation."

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- (i) **The auditor's signature.**
- (j) **The date of the auditor's report.**
- (k) **The auditor's address.**

Consistency in the elements of the auditor's report helps to promote the reader's understanding and to identify unusual circumstances when they occur.

27. In fulfilling the requirements of paragraph 26, the auditor applies the standards and guidance in ISA 700 (Revised), paragraphs 18-57, relevant to the audit of the other historical financial information. Appendix 2 to this ISA contains examples of auditors' reports on other historical financial information.

#### **Description of the Applicable Financial Reporting Framework**

28. **When the responsible party has a choice of financial reporting frameworks, the description in paragraph 26(d) should be expanded to include the responsible party's responsibility for determining that the applicable financial reporting framework is acceptable in view of the nature of the entity and its environment, the nature and objective of the other historical financial information, and the information needs of the intended users.**
29. **When the other historical financial information has been prepared for a special purpose, the reference to the applicable financial reporting framework in paragraph 26(d) should make clear the objective of the financial information and, if necessary, the intended users, or refer to a note in the financial information that contains that information.**

#### **Restriction on Distribution or Use**

30. **When the other historical financial information has been prepared in accordance with a financial reporting framework designed for a special purpose, the auditor should make a user of the financial information aware of that fact and that, as a result, the other historical financial information may not be suitable for another purpose.** The auditor includes such a statement in a separate paragraph following the auditor's opinion. Financial information prepared in accordance with a framework designed for a special purpose may not be appropriate for use by anyone other than the intended users. The auditor, however, may not be in the position to control the distribution or use of the other historical financial information on which the auditor reports. For example, certain entities may be required by a regulator to place the other historical financial information on public record.
31. When the other historical financial information has been prepared for a special purpose (irrespective of whether the applicable financial reporting framework was designed for a general or special purpose), the auditor also considers including a statement in the auditor's report that the auditor's report is intended solely for the intended users and should not be distributed to or used by parties other than the intended users. For example, an entity may inappropriately provide other historical financial information prepared for a special purpose to a broader user group, such as shareholders, who may use the financial information for a variety of purposes. The auditor may consider it appropriate in the circumstances to indicate in the terms of the engagement and the auditor's report that the auditor's report may be

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distributed to or used by parties other than the intended users only if the auditor's prior written consent is obtained.

### **Reporting on Additional Responsibilities**

32. The auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibility to express an opinion on the other historical financial information. Where this is the case, the auditor applies the standards and guidance in ISA 700 (Revised), paragraphs 46-49, relevant to the audit of the other historical financial information.

### **Auditor's Report for Audits Conducted in Accordance with Both ISAs and Auditing Standards of a Specific Jurisdiction or Country**

33. The auditor may conduct the audit of the other historical financial information in accordance with both the ISAs and the auditing standards of a specific jurisdiction or country. Where this is the case, the auditor applies the standards and guidance in ISA 700 (Revised), paragraphs 61-66, relevant to the audit of the other historical financial information.

### **Unaudited Supplementary Information Presented with Audited Other Historical Financial Information**

34. **The auditor should be satisfied that any supplementary information (presented together with the other historical financial information) that is not covered by the auditor's opinion is clearly differentiated from the audited financial information.** Where unaudited supplementary information is presented with the audited other historical financial information, the auditor applies the standards and guidance in ISA 700 (Revised), paragraphs 67-71, relevant to the audit of the other historical financial information.

### **Reporting Considerations Specific to Reporting on a Single Financial Statement, Element, Account or Item**

35. An auditor may undertake an engagement to report on a single financial statement or statements, or one or more specific elements, accounts or items of a financial statement, separately or together with an audit of the entity's complete set of financial statements. Even when undertaken together, each engagement requires a separate audit opinion. **When the entity intends to publish an audited single financial statement, element, account or item together with the complete set of financial statements, the auditor should consider whether (a) the entity's presentation of the audited single financial statement, element, account or item differentiates it sufficiently from the complete set of financial statements, and (b) the audit opinion on the single financial statement, element, account or item is sufficiently differentiated from the audit opinion on the complete set of financial statements.** If the auditor concludes that the differentiation is insufficient, the auditor asks the responsible party to rectify the situation. The auditor does not issue the auditor's report on the other historical financial information until satisfied with the differentiation.
36. **When the auditor expresses an opinion on one or more specific elements, accounts or items in a financial statement and a modified opinion has been expressed with respect**

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**to that financial statement, or an emphasis of matter paragraph or other matters paragraph has been included in the auditor's report with respect to that financial statement, the auditor should consider the effect that this may have on the auditor's report on the specific elements, accounts or items constituting the other historical financial information.**

37. When the modified opinion with respect to the financial statement relates to the other historical financial information, the auditor considers whether to modify the opinion on the other historical financial information in a similar manner. When the modified opinion with respect to the financial statement does not relate to the other historical financial information, the auditor considers whether it may be necessary to refer to the modified opinion in an other matters paragraph (see proposed ISA 706) in the auditor's report on the other historical financial information.
38. In accordance with proposed ISA 705, paragraph 34, the auditor is not permitted to include a supplementary unmodified opinion on one or more specific elements, accounts or items of a financial statement in an auditor's report that contains an adverse opinion or a disclaimer of opinion on the financial statements as a whole. The auditor, however, may be able to express an unmodified opinion on one or more specific elements, accounts or items in a financial statement with respect to which the auditor has expressed an adverse opinion or a disclaimer of opinion, provided that (a) the matters to be reported on and the related scope of the audit were not intended to and did not encompass so many elements, accounts or items as to constitute a major portion of that financial statement, and (b) the opinion on the specified element, account or item is presented in a separate report.

**Effective Date**

39. This ISA is effective for auditors' reports dated on or after December 31, 2006.

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

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.

## Examples of Reports on Other Historical Financial Information

### **Example 1:**

**Circumstances include the following:**

- **Audit of a complete set of financial statements.**
- **The financial statements have been prepared by the management of the entity in accordance with the tax basis of accounting (i.e., a financial reporting framework designed for a special purpose, but not designed to achieve fair presentation) for purposes of filing the entity's income tax return (i.e., a special purpose).**

### INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

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

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

Management is responsible for the preparation and presentation of these financial statements in accordance with the tax basis of accounting for the purpose of [describe purpose, e.g., filing with the relevant tax authority]. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditor's Responsibility**

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

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

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accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements of ABC Partnership for the year ended December 31, 20X1 have been properly prepared, in all material respects, in accordance with the tax basis of accounting.

**Restriction on Distribution or Use of the Auditor's Report**

The financial statements have been prepared in accordance with the tax basis of accounting for purposes of [describe purpose, e.g., filing the income tax return of ABC Partnership with the relevant taxation authority]. The financial statements may not be suitable for another purpose. Our report is intended solely for ABC Partnership and its partners and should not be distributed to or used by parties other than ABC Partnership or its partners.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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**Example 2:**

**Circumstances include the following:**

- **Audit of a statement of cash receipts and disbursements (i.e., a single financial statement).**
- **The financial statement has been prepared by the management of the entity in accordance with the cash receipts and disbursements basis of accounting (i.e., a financial reporting framework designed for a special purpose, but not designed to achieve fair presentation) to respond to a request for cash flow information received from a creditor (i.e., a special purpose).**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying statement of cash receipts and disbursements of ABC Company for the year ended December 31, 20X1.

**Management's Responsibility for the Financial Statement**

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

**Auditor's Responsibility**

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

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

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

**Opinion**

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

**Restriction on Distribution or Use of the Auditor's Report**

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

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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**Example 3:**

**Circumstances include the following:**

- **Audit of a balance sheet (i.e., a single financial statement).**
- **The financial statement has been prepared by the management of the entity in accordance with the Financial Reporting Standards of Country X (i.e., a financial reporting framework designed for a general purpose to achieve fair presentation of the specific information (e.g., single balance sheet) presented) to provide financial information to the entity's customers and others (i.e., a general purpose).**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying balance sheet of ABC Company as of December 31, 20X1, and a summary of significant accounting policies and other explanatory notes.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Financial Reporting Standards of Country X. This responsibility includes: determining that the Financial Reporting Standards of Country X are an acceptable basis for preparing and fairly presenting the financial statement in the circumstances; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the balance sheet, and summary of significant accounting policies and other explanatory notes, give a true and fair view of (*or "present fairly, in all material respects,"*) the financial position of ABC Company as of December 31, 20X1 in accordance with the requirements of the Financial Reporting Standards of Country X that are relevant to the preparation and fair presentation of a balance sheet.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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**Example 4:**

**Circumstances include the following:**

- **Audit of the liability for “incurred but not reported” claims in an insurance portfolio (i.e., element, account or item of a financial statement).**
- **The financial information has been prepared by the management of the entity in accordance with the financial reporting provisions established by a regulator (i.e., a financial reporting framework designed for a special purpose, but not designed to achieve fair presentation) to meet the requirements of that regulator (i.e., a special purpose).**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

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

**Management's Responsibility for the Schedule**

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

**Auditor's Responsibility**

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

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

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

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**Opinion**

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

**Restriction on Distribution or Use of the Auditor's Report**

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

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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**Example 5:**

**Circumstances include the following:**

- **Audit of accounts receivable (i.e., element, account or item of a financial statement).**
- **The financial information has been prepared by the management of the entity in compliance with the Financial Reporting Standards of Country X (i.e., a financial reporting framework designed for a general purpose to achieve fair presentation, including fair presentation of the specific information (e.g., accounts receivable) presented) to comply with the requirements of a loan agreement (i.e., a special purpose).**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying schedule of accounts receivable and summary of significant accounting policies and explanatory notes of ABC Company for the year ended December 31, 20X1.

**Management's Responsibility for the Schedule**

Management is responsible for the preparation and fair presentation of the schedule in accordance with the Financial Reporting Standards of Country X for the purpose of complying with section X of loan agreement Y between ABC Company and DEF Bank. This responsibility includes: determining that the Financial Reporting Standards of Country X are an acceptable basis for preparing and fairly presenting the schedule in the circumstances; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the schedule has been prepared in accordance with the Financial Reporting Standards of Country X.

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

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

**Opinion**

In our opinion, the schedule of accounts receivable and summary of significant accounting policies and other explanatory notes give a true and fair view of (*or "present fairly, in all material respects,"*) the accounts receivable of ABC Company as of December 31, 20X1 in accordance with the requirements of the Financial Reporting Standards of Country X that are relevant to the preparation and fair presentation of the schedule of accounts receivable.

**Restriction on Distribution or Use of the Auditor's Report**

The schedule of accounts receivable and significant accounting policies and explanatory notes have been prepared in accordance with the Financial Reporting Standards of Country X for purposes of complying with section X of loan agreement Y between ABC Company and DEF Bank. The schedule may not be suitable for another purpose. Our report is intended solely for ABC Company and DEF Bank and should not be distributed to or used by parties other than ABC Company or DEF Bank.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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**Example 6:**

**Circumstances include the following:**

- **Audit of revenue (i.e., element, account or item of a financial statement).**
- **The financial information has been prepared by the management of the entity in compliance with the financial reporting provisions of a lease contract (i.e., a financial reporting framework designed for a special purpose, but not designed to achieve fair presentation) to determine the monthly rent for the following year (i.e., a special purpose).**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying schedule of revenue of ABC Company for the year ended December 31, 20X1 prepared in compliance with the financial reporting provisions set out in paragraphs [insert paragraph numbers] of [identify the contract, including the date thereof] ("the contract").<sup>7</sup>

**Management's Responsibility for the Schedule**

Management is responsible for the preparation and presentation of the schedule in accordance with the financial reporting provisions of the contract for purposes of determining the monthly rent to be paid by ABC Company to DEF Company for the year ended December 31, 20X2. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of the schedule that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates, if any, that are reasonable in the circumstances.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the schedule has been prepared in accordance with the financial reporting provisions of the contract.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and

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<sup>7</sup> If applicable and necessary, the introductory paragraph could be amended to read as follows: "We have audited the accompanying schedule of revenue of ABC Company as of December 31, 20X1 prepared in compliance with the financial reporting provisions set out in paragraphs [insert paragraph numbers] of [identify the contract, including the date thereof] ("the contract") and the interpretations of these provisions set out in Note X to the schedule of revenue." The opinion paragraph is also amended accordingly.

THE INDEPENDENT AUDITOR'S REPORT ON OTHER  
HISTORICAL FINANCIAL INFORMATION

presentation of the schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the schedule.

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

**Opinion**

In our opinion, the financial information in the schedule of revenue of ABC Company for the year ended December 31, 20X1 has been properly prepared, in all material respects, in accordance with the financial reporting provisions of the contract.

**Restriction on Distribution or Use of the Auditor's Report**

The schedule of revenue has been prepared in accordance with the financial reporting provisions of the contract for purposes of determining the monthly rent to be paid by ABC Company to DEF Company for the year ended December 31, 20X2. The schedule may not be suitable for another purpose. Our report is intended solely for ABC Company and DEF Company and should not be distributed to or used by parties other than ABC Company or DEF Company.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

THE INDEPENDENT AUDITOR'S REPORT ON OTHER  
HISTORICAL FINANCIAL INFORMATION

**Example 7:**

**Circumstances include the following:**

- **Audit of a complete set of financial statements required by law or regulation.**
- **The financial statements have been prepared for a general purpose by the management of the entity in accordance with the Financial Reporting Standards of Country X (i.e., a financial reporting framework designed for a general purpose, but not designed to achieve fair presentation).**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

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

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

Management is responsible for the preparation and presentation of these financial statements in accordance with the Financial Reporting Standards of Country X. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

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

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

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

THE INDEPENDENT AUDITOR'S REPORT ON OTHER  
HISTORICAL FINANCIAL INFORMATION

**Opinion**

In our opinion, the financial statements of ABC Company have been properly prepared, in all material respects, in accordance with the Financial Reporting Standards of Country X.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**PROPOSED INTERNATIONAL STANDARD ON AUDITING 800**

**THE INDEPENDENT AUDITOR’S REPORT ON  
SUMMARY AUDITED FINANCIAL STATEMENTS**

(Effective for auditors’ reports issued on or after December 31, 2006)

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International Standard on Auditing (ISA) 800, “The Independent Auditor’s Report on Summary Audited Financial Statements” should be read in the context of the “Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services,” which sets out the application and authority of ISAs.

## Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance for the independent auditor's report on summary financial statements derived from audited financial statements (for purposes of this ISA referred to as "summary financial statements"). It also contains standards and guidance on the criteria used and procedures performed in an engagement to report on summary financial statements.
2. According to ISA 200, "Objective and General Principles Governing an Audit of Financial Statements," paragraph 34, the term "financial statements" refers to a complete set of financial statements or a single financial statement. Although the term "financial statements" is used in this ISA, the standards and guidance apply to auditors' reports on summaries of audited complete sets of financial statements and summaries of audited historical financial information other than complete sets of financial statements.
3. This ISA does not establish standards or provide guidance for:
  - (a) A report on summary financial statements derived from financial statements that are unaudited;
  - (b) A report issued as a result of an audit of summary financial statements;
  - (c) A report confirming that information is an accurate extraction from the financial statements.
4. The objective of an engagement to report on summary financial statements is to express an opinion whether they are an appropriate summary of the audited financial statements from which they have been derived.

## Engagement Acceptance

5. **The auditor should accept an engagement to report on summary audited financial statements only when that auditor has issued a report as a result of an audit of the financial statements from which they have been derived.** The audit of the financial statements from which the summary financial statements have been derived provides the auditor with the necessary knowledge to discharge the auditor's responsibilities regarding the summary financial statements.
6. **Before accepting an engagement to report on summary financial statements, the auditor should request the responsible party to:**
  - (a) **Acknowledge its responsibility for preparing and presenting an appropriate summary of the financial statements that:**
    - (i) **Is in accordance with suitable criteria agreed to be applied; and**
    - (ii) **In view of the applied criteria, contains the information necessary so as not to be misleading in the circumstances.** For example, the summary financial statements will adequately disclose matters that have a pervasive or otherwise material effect on the financial statements from which they have been derived. Such matters could include contingencies, subsequent events,

or conditions that cast doubt on the entity's ability to continue as a going concern;

- (b) **Confirm that the summary financial statements will adequately disclose their summarized nature and identify the financial statements from which they have been derived.** For example, a title such as "Summary Financial Statements Prepared from the Audited Financial Statements for the Year Ended December 31, 20X1") could be used; **and**
- (c) **Confirm that the financial statements from which the summary financial statements have been derived, including the auditor's report thereon, will be available to the intended users of the summary financial statements, unless law or regulation provides otherwise.** When such law or regulation establishes suitable criteria for preparing and presenting the summary financial statements, the auditor may undertake the engagement to report on the summary financial statements, even though the financial statements will not be made available to the intended users.

The above could be evidenced by the responsible party's written acceptance of the terms of the engagement.

- 7. Unless law or regulation provides that the financial statements from which the summary financial statements have been derived need not be made available to the intended users of the summary financial statements, the auditor evaluates whether the financial statements will be available to the intended users without undue difficulty. The auditor's evaluation is affected by factors such as whether (a) the summary financial statements describe clearly from whom or where the financial statements are available, (b) the financial statements are on public record, or (c) the responsible party has an established process whereby intended users of the summary financial statements can obtain ready access to the financial statements.

### **Criteria**

- 8. The responsible party is responsible for determining the information that needs to be reflected in the summary financial statements, so that they are an appropriate summary of the financial statements from which they have been derived. The auditor is responsible for evaluating whether the summary financial statements are an appropriate summary of the financial statements. The auditor needs criteria suitable for such evaluation.
- 9. **The auditor should determine whether the criteria applied in preparing and presenting the summary financial statements are suitable.** The auditor determines the suitability of the applied criteria in view of the nature of the entity and its environment, the nature and objective of the summary financial statements, and the information needs of the intended users of the summary financial statements.
- 10. Summary financial statements, by their nature, are expected to contain only limited disclosure. Consequently, there is a risk that summary financial statements 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. When established criteria do not exist, the auditor considers

whether the criteria applied in preparing and presenting the summary financial statements are suitable in the circumstances before accepting an engagement.

11. When established criteria do not exist, the auditor evaluates whether the criteria applied in preparing and presenting the summary financial statements result in:
  - (a) Summary financial statements that agree with or can be recalculated from the related information in the financial statements from which they have been derived; and
  - (b) Summary financial statements that contain the information necessary so as not to be misleading in the circumstances.
12. Criteria need to be available to the intended users to allow them to understand how the summary financial statements have been prepared.

### **Nature of Procedures and Form of Opinion**

13. **The auditor should 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 financial statements from which they have been derived.**
  - (b) **When summary financial statements are not accompanied by the financial statements from which they have been derived, evaluate whether they describe clearly from whom or where the financial statements are available, except in the circumstances described in paragraph 6(c).**
  - (c) **Compare the summary financial statements with the related information in the financial statements from which they have been derived to determine whether the summary financial statements agree with or can be recalculated from the related information in the financial statements.**
  - (d) **Evaluate whether the summary financial statements have been prepared and presented in accordance with the applied criteria.**
  - (e) **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.**
14. Based on the above, the auditor expresses an opinion whether the summary financial statements are an appropriate summary of the financial statements from which they have been derived in accordance with the applied criteria.
15. Summary financial statements do not contain all the information required by the financial reporting framework applied in preparing and presenting the financial statements from which they have been derived. Consequently, the auditor cannot report on the summary financial statements in the same manner as the auditor reported on the financial statements. To do so might lead readers to assume incorrectly that the summary financial statements include all the disclosures required by the financial reporting framework applied in preparing and presenting the financial statements. Terms such as "give a true

and fair view” or “are presented fairly, in all material respects,” are therefore not used by the auditor in opinions on summary financial statements.

16. In some jurisdictions, law or regulation governing reporting on summary financial statements may prescribe wording for the opinion that is different from that described in paragraph 14. Although the auditor may be obliged to use the prescribed wording, the auditor's procedures described in paragraph 13 remain the same, with the addition of any further procedures necessary to enable the auditor to express the prescribed opinion.
17. When wording prescribed by law or regulation differs significantly from that described in paragraph 14, the auditor carefully considers whether there may be a risk that the intended users of the summary financial statements might misunderstand the procedures performed as a basis for the auditor's opinion. In such circumstances, the auditor considers whether the risk of misunderstanding can be mitigated through appropriate explanation in the auditor's report.

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

18. Ordinarily, the auditor performs the procedures described in paragraph 13 during or immediately after the audit of the financial statements from which the summary financial statements have been derived. When the auditor is requested to report on the summary financial statements after the completion of the audit of the financial statements, the auditor does not (a) obtain additional audit evidence on the financial statements; or (b) report on the effects of events that occurred subsequent to the date of the auditor's report on the financial statements. To avoid any misunderstanding, the auditor's report on the summary financial statements states that the summary financial statements and financial statements from which they have been derived do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the financial statements that may require adjustment of, or disclosure in, the financial statements.

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

#### **Elements of the Auditor's Report**

19. **At a minimum, the auditor's report on summary financial statements should include the following elements:**
  - (a) **A title clearly indicating it as the report of an independent auditor.<sup>1</sup>**
  - (b) **An addressee.**
  - (c) **An introductory paragraph that:**
    - (i) **Identifies the summary financial statements on which the auditor is reporting;**

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<sup>1</sup> A title indicating the report is the report of an independent auditor, for example, “Independent Auditor's Report,” affirms that the auditor has met all of the relevant ethical requirements regarding independence, and therefore, distinguishes the independent auditor's report from reports issued by others.

- (ii) **Identifies the financial statements from which the summary financial statements have been derived, and the date on which they were issued;**
  - (iii) **Refers to the auditor's report on the financial statements, the date of that report, and, when an unmodified opinion was expressed on the financial statements, that fact; and**
  - (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 financial statements, states that the summary financial statements and financial statements from which they have been derived do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the financial statements.**
- (d) **Identification of the responsible party, and a description of that party's responsibility for preparing and presenting an appropriate summary of the financial statements that is (i) in accordance with the applied criteria, and (ii) in view of the applied criteria, contains the information necessary so as not to be misleading in the circumstances.**
- (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 an appropriate summary of the financial statements in accordance with the applied criteria.**
- (g) **A statement, or reference to a note in the summary financial statements, indicating that:**
- (i) **The summary financial statements do not contain all the disclosures required by the financial reporting framework applied in preparing and presenting the financial statements from which they have been derived, and**
  - (ii) **Reading the summary financial statements is not a substitute for reading the financial statements.**
- (h) **The auditor's signature.**
- (i) **The date of the auditor's report.**
- (j) **The auditor's address.**

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

20. Ordinarily the addressee is the same as the addressee of the auditor's report on the financial statements. If this is not the case, the auditor considers the appropriateness thereof in view of the terms of the engagement, the nature of the entity and its environment, and the nature and objective of the summary financial statements.
21. **The auditor should date the 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 should include evidence that the preparation of those summary financial statements has been completed, and that the responsible party has asserted its responsibility for them.** Since the auditor's opinion is provided on the summary financial statements and they are the responsibility of the responsible party, the auditor is not in a position to conclude that sufficient appropriate audit evidence has been obtained until the auditor obtains evidence that the preparation of those summary financial statements has been completed and the responsible party has accepted 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 its environment, and the nature and objective of the summary financial statements.

### **Modifications to the Opinion, Emphasis of Matter Paragraph or Other Matters Paragraph in Auditor's Report on Financial Statements**

22. **When the auditor's report on the financial statements from which the summary financial statements have been derived contains a qualified opinion, an emphasis of matter paragraph, or an other matters paragraph, but the auditor is satisfied that the summary financial statements are an appropriate summary of the financial statements, the opinion section of the auditor's report on the summary financial statements should:**
- (a) **State that the auditor's report on the financial statements contains a qualified opinion, an emphasis of matter paragraph, or an other matters paragraph; and**
  - (b) **Describe (i) the basis for the qualified opinion, and the qualified opinion; the emphasis of matter paragraph; or the other matters paragraph; and (ii) the effect thereof on the summary financial statements, if any.**
23. **When the auditor's report on the financial statements from which the summary financial statements have been derived contains an adverse opinion or a disclaimer of opinion, the opinion section of the auditor's report on the summary financial statements should:**
- (a) **State that the auditor's report on the financial statements contains an adverse opinion or disclaimer of opinion;**
  - (b) **Describe the basis for the 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.**

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

### **Modified Opinion on the Summary Financial Statements**

24. The auditor requests the responsible party to make appropriate changes to the summary financial statements when:

- The summary financial statements do not adequately disclose their summarized nature, identify the financial statements from which they have been derived or, except in the circumstances described in paragraph 6(c), clearly describe from whom or where the financial statements are available;
- The summary financial statements do not agree with or cannot be recalculated from the related information in the financial statements from which they have been derived;
- The summary financial statements have not been prepared or presented in accordance with the applied criteria; or
- In view of the applied criteria, the summary financial statements do not contain the information necessary so as not to be misleading in the circumstances.

**If the responsible party does not agree to make the appropriate changes, the auditor should not express an opinion on the summary financial statements, unless required by law or regulation to do so. When law or regulation requires the auditor to express an opinion, the auditor should express an adverse opinion on the summary financial statements.** The Appendix to this ISA contains an example of such a report.

25. The Code of Ethics for Professional Accountants issued by the International Federation of Accountants (IFAC) states that professional accountants should not be associated with reports, returns, communications or other information where they believe that the information (a) contains a material false or misleading statement, (b) contains statements or information furnished recklessly, or (c) omits or obscures information required to be included where such omission or obscurity would be misleading. The disassociation required in paragraph 24 is intended to meet this ethical requirement.

## **Comparatives**

26. There is a presumption that if the financial statements from which the summary financial statements have been derived contain comparatives, the summary financial statements will also contain comparatives. If the financial statements contain comparatives, but the summary financial statements do not, the auditor considers whether such omission is reasonable in view of 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. The auditor considers the effect of an unreasonable omission on the auditor's report on the summary financial statements.
27. Comparatives in the financial statements from which the summary financial statements have been derived may be regarded as corresponding figures or as comparative financial information. ISA 710, "Comparatives" 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. If the summary financial statements contain comparatives, which were reported on by another auditor, the auditor's report on the summary financial statements also contains the matters included in the auditor's report on the financial statements in compliance with ISA 710, paragraphs 17 and 26.

## Unaudited Supplementary Information Presented with Summary Financial Statements

28. ISA 700 (Revised), "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements," paragraphs 67-70, and proposed ISA 701, "The Independent Auditor's Report on Other Historical Financial Information," paragraph 33, establish standards and provide guidance to be applied when unaudited supplementary information is presented with audited historical financial information. **When unaudited supplementary information is presented with the summary financial statements, the auditor should be satisfied that the unaudited supplementary information 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 should explain in the auditor's report that the supplementary information has not been audited.**
29. 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. The auditor's responsibilities with respect to unaudited supplementary information are consistent with those described in ISA 720, "Other Information in Documents Containing Audited Financial Statements."

## Auditor Association

30. An entity might make a statement in a document that names the auditor and also refers to the fact that summary financial statements have been derived from the audited financial statements. Such a statement does not, in itself, require the auditor to report on the summary financial statements, if:
- (a) The reference to the auditor is in the context of the auditor's report on the financial statements from which the summary financial statements have been derived; and
  - (b) The statement does not give the impression that the auditor has reported on the summary financial statements.

If these provisions are not met, the auditor requests that the entity change the statement to meet the provisions in paragraph 29(a)-(b) or not include the auditor's name 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.

31. **If the entity does not change the statement, delete the reference to the auditor, or allow the auditor's report on the summary financial statements to be included, the auditor should advise the entity that the auditor does not consent to either the use of the auditor's name or the reference to the auditor, and the auditor should consider what other actions might be appropriate.** Other actions may include informing the intended users and other known third party users of the inappropriate use of the auditor's name or seeking legal advice.

**Effective Date**

32. This ISA is effective for auditor's reports dated on or after December 31, 2006.

## Examples of Reports on Summary Financial Statements

### **Example 1:**

**Circumstances include the following:**

- **An unmodified opinion was expressed on the financial statements from which the summary financial statements have been derived.**
- **Established criteria for preparing and presenting summary financial statements exist.**

### INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

The accompanying summary audited 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, were derived from the 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.<sup>2</sup>

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the summary audited financial statements based on our procedures which were conducted in accordance with International Standard on Auditing (ISA) 800, "The Independent Auditor's Report on Summary Audited Financial Statements."

### **Opinion**

In our opinion, the summary financial statements are an appropriate summary of the financial statements of ABC Company for the year ended December 31, 20X4 in accordance with [describe established criteria].

### **Notice to Reader**

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

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<sup>2</sup> When the auditor's report on the summary financial statements is dated after the date of the auditor's report on the financial statements from which they have been derived, the following sentence is added to this paragraph: "These financial statements and the summary financial statements do not reflect the effects, if any, of events that occurred subsequent to the date of the auditor's report on the complete set of financial statements."

THE INDEPENDENT AUDITOR'S REPORT ON SUMMARY AUDITED FINANCIAL STATEMENTS

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**Example 2:**

**Circumstances include the following:**

- **An unmodified opinion was expressed on the financial statements from which the summary financial statements have been derived.**
- **Established criteria for preparing and presenting summary financial statements do not exist.**

INDEPENDENT AUDITOR'S REPORT

[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, were derived from the 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.<sup>3</sup>

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

Management is responsible for preparing and presenting an appropriate summary of the financial statements that is in agreement with or can be recalculated from the related information in the financial statements from which it has been derived and contains the information necessary so as not to be misleading in the circumstances.

**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) 800, "The Independent Auditor's Report on Summary Audited Financial Statements."

**Opinion**

In our opinion, the summary financial statements are an appropriate summary of the financial statements of ABC Company for the year ended December 31, 20X4 on the basis described under Management's Responsibility for the Summary Financial Statements.

**Notice to Reader**

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

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<sup>3</sup> When the auditor's report on the summary financial statements is dated after the date of the auditor's report on the financial statements from which they have been derived, the following sentence is added to this paragraph: "These financial statements and the summary financial statements do not reflect the effects, if any, of events that occurred subsequent to the date of the auditor's report on the complete set of financial statements."

THE INDEPENDENT AUDITOR'S REPORT ON SUMMARY AUDITED FINANCIAL STATEMENTS

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**Example 3:**

**Circumstances include the following:**

- **A qualified opinion was expressed on the financial statements from which the summary financial statements have been derived.**
- **Established criteria for preparing and presenting summary financial statements do not exist.**

INDEPENDENT AUDITOR'S REPORT

[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, were derived from the financial statements of ABC Company for the year ended December 31, 20X4.<sup>4</sup>

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

Management is responsible for preparing and presenting an appropriate summary of the financial statements that is in agreement with or can be recalculated from the related information in the financial statements from which it has been derived and contains the information necessary so as not to be misleading in the circumstances.

**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) 800, "The Independent Auditor's Report on Summary Audited Financial Statements."

**Opinion**

In our opinion, the summary financial statements are an appropriate summary of the financial statements of ABC Company for the year ended December 31, 20X4 on the basis described under Management's Responsibility for the Summary Financial Statements.

We expressed a qualified opinion on the financial statements of ABC Company for the year ended December 31, 20X4 in our report dated February 15, 20X5. The basis for our qualified opinion was [describe basis for qualified opinion]. Our qualified opinion stated that [describe qualified opinion].<sup>5</sup>

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<sup>4</sup> When the auditor's report on the summary financial statements is dated after the date of the auditor's report on the financial statements from which they have been derived, the following sentence is added to this paragraph: "These financial statements and the summary financial statements do not reflect the effects, if any, of events that occurred subsequent to the date of the auditor's report on the complete set of financial statements."

<sup>5</sup> If the summary financial statements are affected by the basis for the qualified opinion, this paragraph should also describe the effect thereof on the summary financial statements.

**Notice to Reader**

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

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**Example 4:**

**Circumstances include the following:**

- **An adverse opinion was expressed on the financial statements from which the summary financial statements have been derived.**
- **Established criteria for preparing and presenting summary financial statements do not exist.**

INDEPENDENT AUDITOR'S REPORT

[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, were derived from the audited financial statements of ABC Company for the year ended December 31, 20X4.<sup>6</sup>

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

Management is responsible for preparing and presenting an appropriate summary of the financial statements that is in agreement with or can be recalculated from the related information in the financial statements from which it has been derived and contains the information necessary so as not to be misleading in the circumstances.

**Auditor's Responsibility**

Because of the matter described in the Disclaimer of Opinion paragraph, we were not able to complete our procedures in accordance with International Standard on Auditing (ISA) 800, "The Independent Auditor's Report on Summary Audited Financial Statements."

**Disclaimer of Opinion**

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

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

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<sup>6</sup> When the auditor's report on the summary financial statements is dated after the date of the auditor's report on the financial statements from which they have been derived, the following sentence is added to this paragraph: "These financial statements and the summary financial statements do not reflect the effects, if any, of events that occurred subsequent to the date of the auditor's report on the complete set of financial statements."

**Notice to Reader**

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

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**Example 5:**

**Circumstances include the following:**

- **An unmodified opinion was expressed on the financial statements from which the summary financial statements have been derived.**
- **Established criteria for preparing and presenting summary financial statements exist.**
- **The auditor concluded that it is not possible to express an unmodified opinion on the summary financial statements. Law or regulation, however, requires the auditor to express an opinion on the summary financial statements.**

INDEPENDENT AUDITOR'S REPORT

[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, were derived from the 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.<sup>7</sup>

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

Management is responsible for preparing and presenting an appropriate summary of the 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) 800, "The Independent Auditor's Report on Summary Audited Financial Statements."

**Adverse Opinion**

[Describe matter that caused the summary financial statements not to be an appropriate summary of the financial statements of ABC Company.] Therefore, in our opinion, the summary financial statements are not an appropriate summary of the financial statements of ABC Company for the year ended December 31, 20X4 in accordance with [describe established criteria].

**Notice to Reader**

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

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<sup>7</sup> When the auditor's report on the summary financial statements is dated after the date of the auditor's report on the financial statements from which they have been derived, the following sentence is added to this paragraph: "Those financial statements and the summary financial statements do not reflect the effects, if any, of events that occurred subsequent to the date of the auditor's report on the complete set of financial statements."

THE INDEPENDENT AUDITOR'S REPORT ON SUMMARY AUDITED FINANCIAL STATEMENTS

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

## PROPOSED CONFORMING AMENDMENTS

### ISA 200, “Objective and General Principles Governing an Audit of Financial Statements”

#### Definitions

##### 1a. In the ISAs:

- (a) “Financial reporting framework” means a set of criteria applied in preparing and presenting other historical financial information. The term includes any legal and regulatory requirements that supplement but do not conflict with the financial reporting framework.
- (b) “Financial reporting framework designed for a general purpose” means a financial reporting framework designed to meet the common information needs of a wide range of user.
- (c) “Financial reporting framework designed for a special purpose” means a financial reporting framework designed to meet the information needs of specific intended users.
- (d) “Financial reporting framework designed to achieve fair presentation” means a financial reporting framework that (a) provides a context for the auditor’s evaluation of the fair presentation of the financial statements, and (b) acknowledges, implicitly or explicitly, that to achieve the objective of fair presentation of the financial statements (i) it may be necessary for management to provide disclosures beyond the specific requirements of the framework, or (ii) in extremely rare circumstances, it may be necessary for management to depart from the specific requirements of the framework.

#### **Responsibility for the Financial Statements**

34. 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. The term can refer to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, ~~or a statement of revenues and expenses~~, and related explanatory notes (for further examples see Appendix 1 to ISA 701, “The Independent Auditor’s Report on Other Historical Financial Information”).

#### **Financial Statements Designed to Meet the Financial Information Needs of Specific Users**

39. In some cases, the objective of the financial statements will be to meet the financial information needs of specific users. The information needs of such users will determine the applicable financial reporting framework in these circumstances. Examples of financial reporting frameworks that address the needs of specific users are: a tax basis of accounting for ~~a set of~~ financial statements that accompany an entity’s tax return; the financial reporting provisions ~~of established by a government regulatory agency for a set~~

~~of financial statements~~ to meet the ~~information needs requirements~~ of that ~~agency regulator~~; or ~~a the~~ financial reporting ~~framework established by the~~ provisions of ~~an agreement a contract specifying the financial statements to be prepared~~. 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\_701, “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\_701~~.

### **Financial Reporting Frameworks Established by Authorized or Recognized Organizations**

41. These financial reporting frameworks are often identified as the applicable financial reporting framework in legislative and regulatory requirements governing the preparation of general purpose financial statements. Refer to ~~ISA-800\_701~~ for financial reporting frameworks designed to meet the particular ~~needs requirements~~ of a ~~government regulatory agency~~.

### **Expressing an Opinion on the Financial Statements**

50. The auditor refers to ~~ISA-800\_701~~ when expressing an opinion on:

- (a) A complete set of financial statements prepared in accordance with ~~an other comprehensive basis of accounting a financial reporting framework designed for a general purpose, but not designed to achieve fair presentation~~;
- (b) ~~A complete set of financial statements prepared in accordance with a financial reporting framework designed for a special purpose~~;
- ~~(b)(c) \_\_\_\_\_ A component single financial statement, or statements, that would otherwise be part of a complete set of general purpose or special purpose financial statements, such as a single financial statement, specified accounts, elements of accounts, or items in a financial statement; and~~
- ~~(d) One or more specific elements, accounts or items of a financial statement.~~
- ~~(e) Compliance with contractual agreements; and~~
- ~~(d) Summarized financial statements.~~

## **ISA 300, “Planning an Audit of Financial Statements”**

### **Appendix**

#### **Scope of the Audit Engagement**

- When auditing a single financial statement, or one or more specific elements, accounts or items of a financial statement, the interrelationship between related

financial statements, or between various elements, accounts or items within a financial statement, and the affect that this has on the scope of the audit. For example, in auditing revenue, the auditor considers the relationship between revenue, receivables and inventory, including the pervasive effect of internal control.

## **ISA 700 (Revised), “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements”**

### **Introduction**

3. ~~ISA-800 701~~, “The Independent Auditor’s Report on ~~Special Purpose Audit Engagements Other Historical Financial Information~~” establishes standards and provides guidance on the form and content of the auditor’s report issued as a result of an audit of historical financial information not addressed in this ISA including:
  - (a) A complete set of financial statements prepared in accordance with ~~an other comprehensive basis of accounting a financial reporting framework designed for a general purpose, but not designed to achieve fair presentation;~~
  - (b) A complete set of financial statements prepared in accordance with a financial reporting framework designed for a special purpose;
  - (c) A ~~component~~ single financial statement, or statements, that would otherwise be part of a complete set of ~~general purpose or special purpose~~ financial statements, such as a single financial statement, specified accounts, elements of accounts, or items in a financial statement; and
  - (d) One or more specific elements, accounts or items of a financial statement.
  - ~~(e) Compliance with contractual agreements; and~~
  - ~~(d) Summarized financial statements.~~
- 3a. Paragraphs 29 and 31 of ISA 701 also address additional considerations the auditor needs to take into account when reporting on financial statements that are addressed in this ISA (prepared in accordance with a financial reporting framework that is designed to achieve fair presentation) but which are, nevertheless, intended to be used for a special purpose.



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**IAASB PROPOSES STANDARDS TO ENHANCE THE QUALITY OF AUDITOR REPORTING**

*(New York/June 30, 2005)* – The International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) is inviting comments on exposure drafts of proposed standards designed to further enhance the quality of auditor reporting. Titles of the proposed standards, which may be downloaded from IFAC's website ([www.ifac.org](http://www.ifac.org)), are:

- Proposed International Standard on Auditing (ISA) 701, *The Independent Auditor's Report on Other Historical Financial Information*; and
- Proposed ISA 800, *The Independent Auditor's Report on Summary Audited Financial Statements*.

In developing the new standards, the IAASB considered regulatory and standard-setting developments around the world, the interests of small entities, and the changes necessary as a result of the recently revised ISA 700, *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*.

(more)

The proposed ISA 701, *The Independent Auditor's Report on Other Historical Financial Information*, addresses auditors' reports for a wide variety of engagements, including reporting on a single financial statement, or a specific element of a financial statement. It also provides guidance on determining the acceptability of the financial reporting framework used in preparing and presenting the financial information, and matters the auditor considers in forming an opinion on the financial information, including considerations relevant to financial statements designed to give a true and fair view or fair presentation on the one hand, and to those prepared under a compliance framework on the other.

The proposed ISA 800, *The Independent Auditor's Report on Summary Audited Financial Statement*, recognizes that criteria for preparing and presenting summary financial statements may not exist. It contains new standards and guidance on the criteria used and procedures performed in an engagement to report on summary financial statements.

John Kellas, Chairman of the IAASB, explains: "The two EDs respond to public expectations for worldwide consistency in auditor reporting and will enhance current practice. They have been difficult to draft, as they need to be used in a wide range of engagements and under differing regulatory frameworks. The Board believes we have struck the right balance in trying to achieve consistency in practice, while acknowledging the fact that auditors may be subject to overriding legal or regulatory requirements. The proposed standards will complete the current IAASB project to improve its standards and guidance on auditor reporting."

(more)

### **How to Comment**

Comments on the exposure drafts are requested by October 31, 2005. The exposure drafts may be viewed by going to [www.ifac.org/EDs](http://www.ifac.org/EDs). Comments may be submitted by email to [EDComments@ifac.org](mailto:EDComments@ifac.org). They can also be faxed to the attention of the IAASB Technical Director at +1-212-286-9570 or mailed to IAASB Technical Director at 545 Fifth Avenue, 14<sup>th</sup> Floor, NY, NY 10017, USA. All comments will be considered a matter of public record and will ultimately be posted on IFAC's website.

### **About IAASB and IFAC**

The objective of the IAASB is to serve the public interest by setting high quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB is part of the International Federation of Accountants (IFAC), which is dedicated to serving the public interest, strengthening the worldwide accountancy profession, and contributing to the development of strong international economies. Its current membership consists of over 160 professional accountancy bodies in 119 countries, representing more than 2.5 million accountants in public practice, education, government service, industry and commerce. In addition to setting international auditing and assurance standards through the IAASB, IFAC sets ethics, education, and public sector accounting standards and develops guidance for professional accountants in business.

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