

Basis for Conclusions:  
ISA 800 (Revised and  
Redrafted), Special  
Considerations— Audits of  
Financial Statements Prepared in  
Accordance with Special  
Purpose Frameworks

and

ISA 805 (Revised and  
Redrafted), Special  
Considerations— Audits of  
Single Financial Statements and  
Specific Elements, Accounts or  
Items of a Financial Statement

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*Prepared by the Staff of the International Auditing and  
Assurance Standards Board*



**International Federation  
of Accountants**

**BASIS FOR CONCLUSIONS:**  
**ISA 800 (REVISED AND REDRAFTED), SPECIAL CONSIDERATIONS—AUDITS OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH SPECIAL PURPOSE FRAMEWORKS**  
**AND**  
**ISA 805 (REVISED AND REDRAFTED), SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT**

This Basis for Conclusions has been prepared by staff of the International Auditing and Assurance Standards Board (IAASB). It relates to, but does not form part of, ISA 800 (Revised and Redrafted), “Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks” and ISA 805 (Revised and Redrafted), “Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement,” which were approved unanimously by the IAASB in September 2008.<sup>1</sup>

## **Background**

1. In June 2005, the IAASB issued an exposure draft of proposed ISA 701 (Revised).<sup>2</sup> The comment period for the proposed ISA closed on October 31, 2005. The IAASB gave due consideration to the comments received. The IAASB decided to renumber proposed ISA 701 (Revised) to ISA 800 (Revised) and it approved a “close off” document of ISA 800 (Revised)<sup>3</sup> in the “old style” (i.e., following the drafting conventions for extant ISAs) in July 2006.<sup>4</sup> The IAASB’s Clarity conventions were applied to that document. An exposure draft of proposed ISA 800 (Revised and Redrafted) (ED-ISA 800) was published in July 2007.
2. The Clarity conventions used by the IAASB in redrafting its ISAs, and the authority and

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<sup>1</sup> See minutes of the September 15-19, 2008 IAASB meeting at <http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0143>.

<sup>2</sup> Proposed ISA 701 (Revised), “The Independent Auditor’s Report on Other Historical Financial Information.” The number and title of the ISA changed during its development. The Close Off Document was ISA 800 (Revised), “Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.” The exposure draft of the proposed redrafted ISA was ISA 800 (Revised and Redrafted), “Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.” Subsequently, the requirements and guidance were split into two ISAs. The final revised and redrafted ISAs are ISA 800 (Revised and Redrafted), “Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks” and ISA 805 (Revised and Redrafted), “Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.”

<sup>3</sup> Close Off Document—ISA 800 (Revised), “Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement” is available on the IAASB website at <http://www.ifac.org/Guidance/EXD-Download.php?EDFID=00246>.

<sup>4</sup> The Basis for Conclusions: Close Off Document—ISA 800 (Revised) is available on the IAASB website at <http://www.ifac.org/Guidance/EXD-Download.php?EDFID=00264>.

obligation attaching to those conventions, are established in ISA 200 (Revised and Redrafted).<sup>5</sup>

3. The comment date for the exposure draft was November 30, 2007. The IAASB received 40 comment letters from a variety of respondents, including IFAC member bodies and other professional organizations, national auditing standard setters, audit firms, public sector organizations, regulators and oversight authorities. Input was also received from IFAC's Small and Medium Practices Committee. The IAASB made changes to ED-ISA 800 in response to these comments. In addition, the IAASB discussed significant issues raised by respondents with its Consultative Advisory Group (CAG). The CAG did not have significant comments on the matters highlighted for their consideration.
4. This Basis for Conclusions explains the more significant issues raised by respondents on ED-ISA 800, and how the IAASB addressed them.

### Scope of the ISA

5. The scopes of ISA 700 and ISA 800 (Revised) were debated extensively during the finalization of the Close Off Document—ISA 800 (Revised). As explained in the Basis for Conclusions: Close Off Document—ISA 800 (Revised), the IAASB agreed that ISA 800 (Revised) should deal with special considerations in audits of special purpose financial statements and of specific elements, accounts or items of a financial statements, while ISA 700 should deal with auditors' reports on general purpose financial statements. Responses to ED-ISA 800 and the exposure draft of proposed ISA 700 (Redrafted)<sup>6</sup> (ED-ISA 700) indicated to the IAASB that the debate should be reopened.
6. Background information, comments on the split between general purpose financial statements (ED-ISA 700) and special purpose financial statements (ED-ISA 800), and the IAASB's decisions in this regard are presented in paragraphs 8-13 of the Basis for Conclusions: ISA 700 (Redrafted).<sup>7</sup> These decisions include limiting the scope of ISA 800 (Revised and Redrafted)<sup>8</sup> to special considerations in audits of complete sets of financial statements prepared in accordance with special purpose frameworks, and addressing special considerations relating to audits of single financial statements and of specific elements, accounts or items of a financial statement (for purposes of this paper referred to as specific elements of a financial statement) in a new ISA; that is, ISA 805, "Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement." The title of ISA 800 (Revised and

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<sup>5</sup> ISA 200 (Revised and Redrafted), "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing" contains the final statement of the authority and obligation attaching to the Clarity conventions. It is available on the IAASB website at <http://www.ifac.org/Members/Downloads/isa-200-revised-and-redrafted-overall-objectives-of-the-independent-auditor.pdf>.

<sup>6</sup> Proposed ISA 700 (Redrafted), "The Independent Auditor's Report on General Purpose Financial Statements."

<sup>7</sup> The Basis for Conclusions: ISA 700 (Redrafted), Forming an Opinion and Reporting on Financial Statements is available on the IAASB website at [\[insert link\]](#).

<sup>8</sup> ISA 800 (Revised and Redrafted), "Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks."

Redrafted) is “Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks.”

7. In addition, a few respondents to ED-ISA 800 had varying views on how audits of specific elements of a financial statement should be treated. One respondent suggested that the scope of ED-ISA 800 be restricted to special considerations in audits of specific elements of a financial statement, with special considerations in audits of special purpose financial statements being included in the relevant ISAs. A few other respondents were concerned about the inclusion of special considerations in audits of specific elements of a financial statement within the scope of the ISAs. They suggested that such audits be addressed in an International Standard on Assurance Engagements (ISAE). The IAASB was of the view that there was insufficient support for further change at this stage of the project.

## Effective Date

8. The clarity redrafted ISAs are effective for audits of financial statements *for periods* beginning on or after December 15, 2009. In finalizing ISA 805 (Revised and Redrafted), the appropriateness of this effective date was questioned given that under this ISA an auditor may be engaged to express an audit opinion on a financial statement or on an element of a financial statement prepared *as at a specific date*.
9. For example, the auditor may be engaged to express an opinion on accounts receivables *as at March 31, 2010* for a special purpose. The above effective date might be thought to require the auditor to apply the clarified ISAs to the audit of those accounts receivable. Had that date been the financial year end, the audit of the financial statements for the year then ended would be conducted in accordance with the extant ISAs, and not in accordance with the revised and redrafted ISAs. It would seem inappropriate to require a more accelerated adoption of the revised and redrafted ISAs for such a limited exercise than for the audit of full financial statements.
10. To avoid ambiguity or an unintended accelerated application of the clarity redrafted ISAs, the IAASB agreed that ISA 805 (Revised and Redrafted) should state a separate effective date for audits of single financial statements or of specific elements of a financial statement prepared as at a specific date. Paragraph 4 of ISA 805 (Revised and Redrafted) reads as follows:

In the case of audits of single financial statements or of specific elements, accounts or items of a financial statement prepared as at a specific date, this ISA is effective for audits of such information prepared as at a date on or after December 14, 2010.

## Objective

11. Paragraph 6 of ED-ISA 800 contained the following objective:

The objective of the auditor is to apply the ISAs by addressing the special considerations that are relevant to:

- (a) The acceptance of an engagement to audit special purpose financial statements or a specific element, account or item of a financial statement; and
- (b) The planning and performing of, and reporting on, that audit.

12. Approximately half of the respondents explicitly supported the proposed objective; a few of them suggested refinement. Other respondents, however, did not support it. Some found the text to be unclear or overly complex. A few were of the view that ED-ISA 800 did not contain requirements that directly related to part (a). Some were of the view that the objective did not have to make specific reference to acceptance, planning, performance and reporting as these were covered by the objectives of other ISAs.
13. The IAASB was of the view that the objective appropriately represents the requirements of the ISA and, together with the objectives of the other ISAs, will assist the auditor in achieving the overall objective of the auditor in conducting an audit of financial statements. The IAASB was also of the view that the considerations when determining the acceptability of the applicable financial reporting framework in ED-ISA 800 are directly related to the acceptance of the engagement. However, the IAASB clarified and simplified the objective as follows:

ISA 800 (Revised and Redrafted)

The objective of the auditor, when applying ISAs in an audit of financial statements prepared in accordance with a special purpose framework, is to address appropriately the special considerations that are relevant to:

- (a) The acceptance of the engagement;
- (b) The planning and performance of that engagement; and
- (c) Forming an opinion and reporting on the financial statements.

See paragraph 5 of ISA 800 (Revised and Redrafted).

ISA 805 (Revised and Redrafted)

The objective of the auditor, when applying ISAs in an audit of a single financial statement or of a specific element, account or item of a financial statement, is to address appropriately the special considerations that are relevant to:

- (a) The acceptance of the engagement;
- (b) The planning and performance of that engagement; and
- (c) Forming an opinion and reporting on the single financial statement or on the specific element, account or item of a financial statement.

See paragraph 5 of ISA 805 (Revised and Redrafted).

## **Requirements**

14. The majority of respondents were of the view that the criteria identified by the IAASB for determining whether a requirement should be specified have been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and reporting, and the use of professional judgment by auditors.

15. Although some respondents commented on the appropriateness of some of the requirements or suggested refinement, no single requirement received a significant number of comments.

### **ISA 800 (Revised and Redrafted)**

#### *Restriction on Distribution or Use*

16. Paragraph 14 of ED-ISA 800 required the auditor to include in the auditor’s report on special purpose financial statements a statement that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements and related auditor’s report may not be suitable for another purpose. This statement was to be included in a separate paragraph following the auditor’s opinion, and under the heading “Other Matter—Restriction on Use.”
17. Paragraph A14 of ED-ISA 800 explained that the auditor may also consider 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 other parties. Where this is the case, the heading would read “Other Matter—Restriction on Use and Distribution.”
18. Diverse comments were received on the requirement and guidance. For example, a respondent was of the view that the requirement related to a warning that the special purpose financial statements and related auditor’s report may not be suitable for another purpose, as opposed to a restriction on distribution or use. A few other respondents noted that the references in the ISA and in the illustrations of auditors’ reports should be to “Restriction on Distribution or Use,” as many jurisdictions can only restrict distribution. Another respondent suggested that restriction on use of the financial statements be addressed separately from restriction on use of the auditor’s report. A respondent questioned whether it was necessary to elevate the provision to a requirement, while another was of the view that the guidance in paragraph A14 should also be elevated to a requirement.
19. The IAASB agreed that the purpose of the requirement is to alert the readers to information that should already be disclosed in the financial statements regarding the preparation of the financial statements in accordance with a special purpose framework and that such information may not be suitable for another purpose. The requirement and guidance were amended accordingly. See paragraphs 14 and A14 of ISA 800 (Revised and Redrafted). In addition, paragraph A15, under the heading “Restriction on Distribution or Use” indicates that the auditor’s report may include an additional statement that the auditor’s report is intended solely for the intended users.
20. In accordance with ISA 706 (Revised and Redrafted)<sup>9</sup> the alert required by paragraph 14 of ISA 800 (Revised and Redrafted) is an Emphasis of Matter, and the restriction on distribution or use, which is provided for in paragraph A15, is an Other Matter. The IAASB agreed that, in the case of an alert, the heading in the auditor’s report should read “Basis of Accounting” and, in the case of both an alert and a restriction on distribution or

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<sup>9</sup> ISA 706 (Revised and Redrafted), “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report.”

use, the heading should read “Basis of Accounting and Restriction on Distribution” or “Basis of Accounting and Restriction on Distribution and Use.”

### **ISA 805 (Revised and Redrafted)**

#### *Form of Opinion—Audits of Specific Elements, Accounts or Items of a Financial Statement*

21. Paragraph A23 of ED-ISA 800 read as follows:

Unless otherwise required by law or regulation, in accordance with [proposed] ISA 200 (Revised and Redrafted)<sup>10</sup> in conjunction with [proposed] ISA 700 (Redrafted), the opinion paragraph of the auditor’s report on an element states that the element gives a true and fair view or presents fairly, in all material respects, in accordance with the applicable financial reporting framework when that framework is a fair presentation framework. In all other cases, the auditor’s opinion states that the element is prepared, in all material respects, in accordance with the applicable financial reporting framework ...

22. Some respondents did not believe that it was appropriate to express a “presents fairly, in all material respects,” or “gives a true and fair view of” opinion on a specific element of a financial statement. A respondent believed that such an opinion is appropriate only for a complete set of financial statements or a balance sheet prepared in accordance with a fair presentation framework. A few other respondents believed that such an opinion is appropriate only for a complete set of financial statements prepared in accordance with a fair presentation framework.

23. Paragraph A7 of ED-ISA 800 dealt with financial statements prepared in accordance with a special purpose framework that is based on a financial reporting framework established by an authorized or recognized standards setting organization or by law or regulation (an established framework), but that does not comply with all the requirements of the established framework. Paragraph A7 of ED-ISA 800 states that, if this is acceptable in the circumstances of the engagement, it is inappropriate for the description of the applicable financial reporting framework in the special purpose financial statements to imply full compliance with the established financial reporting framework. A respondent noted that ED-ISA 800 did not include a similar explanation for a specific element of a financial statement and, as a result, paragraph A23 of ED-ISA 800 appeared to suggest that, where an entity prepares the element in accordance with the relevant requirements of an established framework, it can be considered compliant with that framework. This respondent was of the view that this would be problematic for established frameworks, such as International Financial Reporting Standards (IFRS), which are designed for complete sets of financial statements. To recognize this, a few respondents suggested that the IAASB consider specifying that, in some jurisdictions, the phrase “gives a true and fair view of” is historically associated, in law or practice, with a complete set of financial statements, whereas the phrase “presents fairly, in all material respects,” is more often associated with a single financial statement or with a specific element of a financial statement.

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<sup>10</sup> ISA 200 (Revised and Redrafted), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.”

24. Another respondent indicated that it was unable to identify an established framework that explicitly deals with financial information other than complete sets of financial statements. This respondent was concerned that the approach in ED-ISA 800 may lead to inconsistencies in practice as judgments will be made as to whether a general purpose framework allows for partial compliance (i.e., for the preparation of a single financial statement or of a specific element of a financial statement).
25. The IAASB noted that its position as included in ED-ISA 800 had been reached after the consultations leading up to Close Off Document—ISA 800 (Revised), and it therefore agreed not to amend at this stage its earlier decision to link the form of opinion to the applicable financial reporting framework. However, recognizing that the position had given rise to many comments on each occasion on which it had been exposed and that the IAASB’s position was the result of a finely balanced decision, the IAASB agreed to address the comments by including additional guidance that emphasizes additional special considerations when accepting an engagement to report on a single financial statement or on a specific element of a financial statement. In particular, a certain amount of jurisdictional variation has been acknowledged.
26. ISA 210 (Redrafted)<sup>11</sup> requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements. Paragraph 9 of ISA 805 (Revised and Redrafted) requires this determination to include whether application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element. In addition, paragraph 10 of ISA 805 (Revised and Redrafted) requires the auditor, when agreeing the terms of the audit engagement in accordance with ISA 210 (Redrafted), to consider whether the expected form of opinion is appropriate in the circumstances.
27. New application material explains that determination of the acceptability of the applicable financial reporting framework may involve considering whether that framework includes all the requirements of the established framework that are relevant to the presentation of a single financial statement or of a specific element of a financial statement that provides adequate disclosures. See paragraph A7 of ISA 805 (Revised and Redrafted).
28. Paragraph A9 of ISA 805 (Revised and Redrafted) explains that, in the case of a single financial statement or of a specific element of a financial statement, the applicable financial reporting framework may not explicitly address the presentation of the financial statement or of the element. The auditor therefore considers whether the expected form of opinion is appropriate in the light of the applicable financial reporting framework. Factors that may affect the auditor’s consideration as to whether to use the phrases “presents fairly, in all material respects,” or “gives a true and fair view of” in the auditor’s opinion include:
  - Whether the applicable financial reporting framework is explicitly or implicitly restricted to the preparation of a complete set of financial statements.

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<sup>11</sup> ISA 210 (Redrafted), “Agreeing the Terms of Audit Engagements.”



- Whether the single financial statement or the specific element of a financial statement will:
  - Comply fully with each of those requirements of the framework relevant to the particular financial statement or the particular element, and the presentation of the financial statement or the element include the related notes.
  - If necessary to achieve fair presentation, provide disclosures beyond those specifically required by the framework or, in exceptional circumstances, depart from a requirement of the framework.

The auditor's decision as to the expected form of opinion is a matter of professional judgment. It may be affected by whether use of the phrases "presents fairly, in all material respects," or "gives a true and fair view" in the auditor's opinion on a single financial statement or on a specific element of a financial statement prepared in accordance with a fair presentation framework is generally accepted in the particular jurisdiction.

#### *Considerations When Forming an Opinion*

29. Paragraph 11 of ED-ISA 800 required the auditor, when forming an opinion and reporting on special purpose financial statements, to apply the requirements in ISA 700 (Redrafted). ED-ISA 800, however, did not contain a similar requirement for audits of specific elements of a financial statement. Such requirement is now included in paragraph 12 of ISA 805 (Revised and Redrafted). Application material to the requirement, which is based on paragraph A22 of ED-ISA 800, explains that ISA 700 (Redrafted) requires the auditor, in forming an opinion, to evaluate whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements. In the case of a single financial statement or of a specific element of a financial statement, it is important that the financial statement or the element, including the related notes, in view of the requirements of the applicable financial reporting framework, provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element and the effect of material transactions and events on the information conveyed in the financial statement or the element. See paragraph A15 of ISA 805 (Revised and Redrafted).

#### *Auditor Engaged to Report on a Specific Element of a Financial Statement – Modified Opinion Expressed on the Entity's Complete Set of Financial Statements*

30. The opinion in the auditor's report on the entity's complete set of financial statements may be modified, or that report may include an Emphasis of Matter paragraph or an Other Matter paragraph. Where this is the case, paragraph 19 of ED-ISA 800 required the auditor to determine the effect that this may have on the auditor's report on an element of those financial statements.
31. Paragraph A25 of ED-ISA 800 explained that, in accordance with the exposure draft of

proposed ISA 705 (Revised and Redrafted),<sup>12</sup> if the auditor has expressed an adverse opinion or disclaimed an opinion on the entity's financial statements as a whole, the auditor is not permitted to express an unmodified opinion on an element of those financial statements in the same auditor's report and with respect to the same applicable financial reporting framework. However, the auditor may be able to express an unmodified opinion on the element where that opinion is expressed in a separate auditor's report. This was only possible if the element and the related scope of the audit, including the additional procedures referred to in paragraph A20 of ED-ISA 800, were not intended to and did not encompass so many elements as to constitute a major portion of those financial statements.

32. A respondent was of the view that, if the auditor has issued a disclaimer of opinion on the entity's financial statements as a whole, it is not appropriate for the auditor to report on a specific element of those financial statements. If the auditor were to do so, the auditor would be issuing a "piecemeal opinion," regardless of whether that opinion is expressed in a separate auditor's report. A few other respondents were of the view that, if the intention of the guidance was to explain that the auditor may avoid the prohibition in proposed ISA 705 (Revised and Redrafted) on issuing a "piecemeal opinion" by engaging in two separate audit engagements and issuing two separate opinions in two separate auditors' reports (i.e., one on the entity's complete set of financial statements and the other on a specific element of those financial statements), the explanation should be clarified. Another respondent, however, suggested that the application material be elevated to a requirement.
33. To address respondents' concern, the IAASB added paragraphs 16 and 17 of ISA 805 (Revised and Redrafted) to strengthen the link with ISA 705 (Revised and Redrafted) with regard to "piecemeal opinions." These paragraphs clarify that an auditor may determine that it is appropriate to issue an unqualified opinion on an element of a financial statement when he or she has issued an adverse opinion or disclaimer of opinion on the entity's complete set of financial statements as a whole only when: (a) the auditor is not prohibited by law or regulation from doing so; (b) the opinion on the element is expressed in an auditor's report that is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion; and (c) the specific element does not constitute a major portion of the entity's complete set of financial statements.
34. In addition, paragraph A18 was added to clarify the link between ISA 805 (Revised and Redrafted) and ISA 510 (Redrafted)<sup>13</sup> with regard to "split opinions." It explains that ISA 510 (Redrafted) permits a split opinion (i.e., the expression of a disclaimer of opinion regarding the results of operations and cash flows, where relevant, and an unmodified opinion regarding the financial position) since it is dealing with initial audit engagements and the disclaimer of opinion is being issued in respect of the results of operations and cash flows only and not in respect of the entity's complete set of financial statements as a whole.

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<sup>12</sup> Proposed ISA 705 (Revised and Redrafted), "Modifications to the Opinion in the Independent Auditor's Report."

<sup>13</sup> ISA 510 (Redrafted), "Initial Audit Engagements—Opening Balances."

BASIS FOR CONCLUSIONS:  
ISA 800 (REVISED AND REDRAFTED) AND ISA 805 (REVISED AND REDRAFTED)

35. Lastly, paragraph 18 of ISA 805 (Revised and Redrafted) clarifies that the auditor is not permitted to express an unmodified opinion on a single financial statement if the auditor has expressed an adverse opinion or disclaimed an opinion on the entity's financial statements as a whole, as the single financial statement (e.g., balance sheet or income statement) constitutes a major portion of those financial statements.