

EXPOSURE DRAFT

ED 35/05
(December 2005)

**Proposed Auditing Standard:
The Auditor's Report on
Special Purpose Audit
Engagements
(Re-issuance of AUS 802)**

Prepared and Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

Commenting on this Exposure Draft

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A copy of all non-confidential submissions will be placed on public record on the AUASB website: www.auasb.gov.au.

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Corporations Act 2001*

PREFACE

Reasons for Issuing ED 35/05

The Auditing and Assurance Standards Board (AUASB) is proposing to re-issue Auditing Standard (AUS 802) *The Auditor's Report on Special Purpose Audit Engagements* due to the requirements of the legislative provisions explained below.

The Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 (the CLERP 9 Act) established the AUASB as an independent statutory body under section 227A of the *Australian Securities and Investments Commission Act 2001*, as from 1 July 2004. Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards will be legislative instruments under the *Legislative Instruments Act 2003*.

ED 35/05 conforms with ISA 800 *The Auditor's Report on Special Purpose Audit Engagements*, issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. Differences between this proposed Auditing Standard and ISA 800 are noted in paragraph 50 of the ED.

Main Proposals

This proposed Auditing Standard establishes mandatory requirements and provides explanatory guidance on the audit of financial information, other than a general purpose financial report prepared in accordance with a financial report framework designed to achieve fair presentation, including:

- (a) a financial report prepared in accordance with an alternative comprehensive basis of accounting;
- (b) a component of a general purpose or special purpose financial report, such as a single financial statement;
- (c) compliance with contractual agreements; and
- (d) summarised financial reports¹.

¹ Other than concise financial reports.

Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after 1 July 2006.

Main changes from existing AUS 802 (May 2002)

The main differences between this proposed Auditing Standard and the Auditing Standard issued by the former Auditing & Assurance Standards Board of the AARF that it supersedes, AUS 802 *The Audit Report on Financial Information Other than a General Purpose Financial Report* (May 2002), is that in this proposed Auditing Standard:

1. the word 'shall', in the **bold-type** paragraphs, is the terminology used to describe an auditor's mandatory requirements, whereas an auditor's degree of responsibility was previously described by the word 'should';
2. the explanatory paragraphs provide guidance and illustrative examples to assist the auditor in fulfilling the mandatory requirements, previously some obligations were implied within certain explanatory paragraphs. Accordingly, such paragraphs have been redrafted to clarify that the matter forms part of the explanatory guidance;
3. the basic elements required in the auditor's report, and, consequently, the example auditor's reports contained in the appendices, have been updated based on the format proposed in ED 24/05 *The Independent Auditor's Report on a General Purpose Financial Report* (Revision of AUS 702 Part A);
4. the following additional mandatory requirements and associated explanatory guidance are included:

General Considerations

- (a) unless required by law or regulation, the auditor's opinion on financial information, other than a summarised financial report and a report on compliance with a contractual agreement, shall state whether:
 - (i) the financial information "gives a true and fair view" or "presents fairly, in all material respects" in accordance with the applicable financial reporting framework when this framework is designed to achieve fair presentation (whereas,

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previously, the phrase used was “is presented fairly”); or

- (ii) the financial information is “properly prepared, in all material respects” in accordance with the applicable financial reporting framework when this framework is not designed to achieve fair presentation (paragraph 13);
- (b) the auditor shall consider whether any significant interpretations of an agreement on which the financial information is based are clearly disclosed in the financial information (whereas previously, the auditor was required to consider whether any significant interpretations of the agreement have been made in preparing the information only) (paragraph 19);

Reports on Financial Reports Prepared in Accordance with an Alternative Comprehensive Basis of Accounting

- (c) the auditor’s report on a financial report prepared in accordance with an alternative comprehensive basis of accounting shall include a statement that indicates the basis of accounting used or shall refer to the note to the financial report giving that information (paragraph 25);
- (d) if the financial report prepared on an alternative comprehensive basis of accounting is not suitably titled or the basis of accounting is not adequately disclosed, the auditor shall issue an appropriately modified report (paragraph 28);

Reports on a Component of a Financial Report

- (e) the auditor’s report on a component of a financial report shall include a statement that indicates the applicable financial reporting framework in accordance with which the component is presented or refers to an agreement that specifies the basis of accounting used (paragraph 34);

Reports on Compliance with Contractual Agreements

- (f) engagements to express an opinion as to an entity’s compliance with contractual agreements shall be undertaken only when the overall aspects of compliance relate to accounting and financial matters within the scope

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- of the auditor's professional competence (paragraph 39);
and
- (g) the report should state whether, in the auditor's opinion, the entity has complied with the particular provisions of the agreement (paragraph 41);
5. the following requirements relating to unmodified auditor's reports, previously contained in AUS 802, have not been included in this proposed Auditing Standard:
- (a) AUS 702 should be applied to audits of financial information other than general purpose financial reports, except to the extent that the requirements of this AUS differ from the requirements of AUS 702 (AUS 802 paragraph .09);
- (b) when the financial reporting framework has been determined on behalf of the users by a party other than the addressee of the audit report, that party should be identified in the audit report (AUS 802 paragraph .17);
- (c) although the auditor's responsibility is to form an opinion regarding presentation in accordance with an identified financial reporting framework, rather than whether the framework adopted is appropriate to the needs of users, when the framework adopted is clearly likely to mislead users of the financial report, the auditor should:
- (i) consider the steps taken by the preparers of the financial report to determine that the financial reporting framework is appropriate to the needs of the users;
- (ii) consider whether the users identified are the only likely users and the possibility that the financial report will be purported to be a general purpose financial report; and
- (iii) give particular attention to the disclosure of the framework, including consideration of whether the use of any conventional terminology within the financial report needs to be modified or embellished (AUS 802 paragraph .19);

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- (d) the auditor should consider the concept of materiality in relation to 'other' financial information (AUS 802 paragraph .24);
 - (e) notwithstanding:
 - (i) that a summarised financial report will not contain all the disclosures required of a general purpose financial report; and
 - (ii) the absence of a generally accepted financial reporting framework for the preparation of summarised financial reports, and

the auditor should express a qualified audit opinion if there are any matters fundamental to an understanding of the summarised financial report which, by their omission, have rendered the summarised financial report misleading (AUS 802 paragraph .30); and
 - (f) when the auditor expresses a qualified audit opinion on the summarised financial report or has expressed a qualified audit opinion on the unabridged financial report, the title of the audit report on the summarised financial report should reflect this fact, for example "Qualified Report of the Independent Auditor"(AUS 802 paragraph .34); and
6. the matters dealt with in Appendix 2 , Summary of Audit Reporting Requirements Under the *Corporations Act 2001*, including the example auditor's report, have been updated.

A Table of Proposed Changes is provided as an attachment to this Exposure Draft.

Request for Comments

Comments are invited on this Exposure Draft of the proposed re-issuance of Auditing Standard (AUS 802) *The Auditor's Report on Special Purpose Audit Engagements* by 31 January 2006. The AUASB would prefer that respondents express a clear overall opinion on whether the proposed Auditing Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on any matter. The AUASB regards both critical and supportive comments as essential to a balanced review of the proposed Auditing Standard.

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes Auditing Standard << >> *The Auditor's Report on Special Purpose Audit Engagements* as set out in paragraphs 1 to 50 and Appendices 1 to 2, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with the *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the Auditing Standards are to be understood, interpreted and applied.

The mandatory requirements of this Auditing Standard are set out in **bold-type** paragraphs.

AUDITING STANDARD

The Auditor's Report on Special Purpose Audit Engagements

Application

- 1 **This Auditing Standard applies to:**
 - (a) **an audit of a special purpose financial report for a financial year, or for a half-year, in accordance with Part 2M.3 of the *Corporations Act 2001*;**
 - (b) **an audit of a special purpose financial report for any other purpose; and**
 - (c) **an audit of other historical financial information as described in this Auditing Standard.**
- 2 This Auditing Standard also applies, as appropriate, to an audit of other financial information other than that described in this Auditing Standard.

Operative Date

- 3 **This Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.**

Introduction

- 4 The purpose of this Auditing Standard is to establish mandatory requirements and provide explanatory guidance in connection with special purpose audit engagements including:
 - a financial report prepared in accordance with an alternative comprehensive basis of accounting such as a special purpose financial report prepared for the purpose of fulfilling the directors' financial reporting requirements of the *Corporations Act 2001*;
 - a component of a general purpose or special purpose financial report, such as a single financial statement, specified accounts, elements of accounts, or items in a financial statement;

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- compliance with contractual agreements; and
- summarised financial reports².

This Auditing Standard does not apply to review or agreed-upon procedures or compilation engagements.

- 5 The auditor shall review and assess the conclusions drawn from the audit evidence obtained during the special purpose audit engagement as the basis for an expression of opinion. The report should contain a clear written expression of opinion.**

General Considerations

- 6 The nature, timing and extent of work to be performed in a special purpose audit engagement will vary with the circumstances.
- 7 Before undertaking a special purpose audit engagement, the auditor shall ensure there is agreement with the client as to the exact nature of the engagement and the form and content of the report to be issued.**
- 8 In planning the audit work, pursuant to paragraph 7 of this Auditing Standard, the auditor is required to obtain a clear understanding of the purpose for which the information being reported on is to be used, and who is likely to use it. To avoid the possibility of the auditor's report being used for purposes for which it was not intended, the auditor ordinarily indicates in the report the purpose for which the report is prepared and any restrictions on its distribution and use.

Basic Elements of the Auditor's Report on Special Purpose Audit Engagements

- 9 The auditor's report on a special purpose audit engagement, except for a report on a summarised financial report shall include the following basic elements, ordinarily in the following layout:**
- (a) **a title clearly identifying it as the report of an independent auditor;**

² This Auditing Standard does not address the auditor's report on a concise financial report prepared in accordance with the *Corporations Act 2001* and AASB 1039. Audit reporting considerations relating to concise financial reports will be addressed in a separate Guidance Statement.

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- (b) an addressee;
- (c) an introductory paragraph that:
 - (i) identifies the financial information that was audited including the name of the entity whose financial information has been audited and the reporting period covered by the financial information;
 - (ii) identifies the responsible party, and includes a description of that party's responsibility for preparing and presenting the financial information in accordance with the applicable financial reporting framework; and
 - (iii) includes a statement that the auditor is responsible for expressing an opinion on the financial information based on the audit;
- (d) a scope paragraph (describing the nature of an audit) that:
 - (i) includes a statement that the audit was conducted in accordance with Auditing Standards in Australia and an explanation that these standards require the auditor to comply with relevant ethical requirements relating to audit engagements; and
 - (ii) a description of the work the auditor performed;
- (e) 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;
- (f) an opinion paragraph containing an expression of opinion on the financial information that refers to the applicable financial reporting framework;
- (g) the date of the auditor's report;
- (h) the auditor's address; and
- (i) the auditor's signature.

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- 10 When relevant, the auditor ordinarily includes the following elements:
- (a) a statement that the report is a special purpose financial report;
 - (b) identification of the purpose for which the information has been prepared and, if necessary, the intended users;
 - (c) a statement that the auditor expresses no opinion as to whether the financial reporting framework is appropriate to address the needs of the addressee of the auditor's report;
 - (d) the extent to which Accounting Standards in Australia have, or have not, been adopted in its preparation and presentation; and
 - (e) identification of any specific restriction on the distribution of the auditor's report or on those entitled to rely on it.
- 11 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 financial information. AUS 702 (Part A) *The Independent Auditor's Report on a General Purpose Financial Report*, contains mandatory requirements and explanatory guidance where the auditor has such additional reporting responsibilities.
- 12 A measure of uniformity in the form and content of the auditor's report is desirable because it helps to promote the reader's understanding.

The Auditor's Opinion on a Special Purpose Audit Engagement

- 13 **Unless required by law or regulation, the auditor's opinion on financial information, other than a summarised financial report and a report on compliance with contractual agreements, shall state whether:**
- (a) **the financial information "gives a true and fair view" or "presents fairly, in all material respects" in accordance with the applicable financial reporting framework when this framework is designed to achieve fair presentation; or**
 - (b) **the financial information is "properly prepared, in all material respects" in accordance with the applicable**

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financial reporting framework when this framework is not designed to achieve fair presentation.

- 14 The mandatory requirements relating to the auditor's opinion on a summarised financial report and compliance with contractual agreements are contained in paragraphs 41 and 48 of this Auditing Standard. The reason for the approach in paragraph 13 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. A 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 information; and
 - (b) acknowledges, implicitly or explicitly, that to achieve the objective of fair presentation of the financial information:
 - (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.

An example of a framework designed to achieve fair presentation is the Accounting Standards promulgated by the Australian Accounting Standards Board (AASB). A financial reporting framework "not designed" to achieve fair presentation is one that does not meet the criteria specified above. For example, a framework which prescribes a cash receipts and disbursements basis of accounting. In the case of a financial reporting framework not designed to achieve fair presentation of the specific information presented, pursuant to paragraph 13 of this Auditing Standard, the auditor is required to form a view on the appropriateness of the preparation and presentation of the financial information in accordance with the framework. When the auditor concludes that the financial information is misleading in the circumstances, the auditor ordinarily discusses the matter with the responsible party and considers the effect on the auditor's report.

- 15 The auditor's opinion on a special purpose financial report prepared in accordance with the *Corporations Act 2001* is required by that Act to use the phrase "true and fair view". In other cases, the auditor's opinion on financial information, other than a summarised

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financial report or a report on compliance with a contractual agreement, prepared in accordance with a financial reporting framework designed to achieve fair presentation ordinarily uses the phrase “is presented fairly, in all material respects”.

Other General Considerations

- 16 In the case of financial information to be supplied by an entity to government authorities, trustees, insurers and other entities there may be a prescribed format for the auditor’s report. Such prescribed reports may not conform to the requirements of this Auditing Standard. For example, the prescribed report may require a certification of fact when an expression of opinion is appropriate, may require an opinion on matters outside the scope of the audit or may omit essential wording.
- 17 When requested to report in a prescribed format, the auditor shall consider the substance and wording of the prescribed report and, when necessary, shall make appropriate changes to conform to the requirements of this Auditing Standard, either by rewording the form or by attaching a separate report.**
- 18 When the information on which the auditor has been requested to report is based on the provisions of an agreement, pursuant to paragraph 19 of this Auditing Standard, the auditor is required to consider whether any significant interpretations of the agreement have been made by the responsible party in preparing the information. An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the financial information.
- 19 The auditor shall consider whether any significant interpretations of an agreement on which the financial information is based are clearly disclosed in the financial information.**
- 20 The auditor may wish to make reference in the auditor’s report on the special purpose audit engagement to the note within the financial information that describes such interpretations. In circumstances where the auditor considers the disclosures to be inadequate, pursuant to AUS 702 (Part B) *Modifications to the Independent Auditor’s Report*, the auditor is required to consider the effect on the auditor’s report.

Reports on Financial Reports Prepared in Accordance With an Alternative Comprehensive Basis of Accounting

- 21 A comprehensive basis of accounting comprises a set of criteria used in preparing a financial report which applies to all material items and which has substantial support. As discussed in AUS 202 *Objective and General Principles Governing an Audit of a Financial Report*, a financial report that is not prepared to meet the common information needs of a wide range of users may be prepared to meet the financial needs of specific uses. The information needs of such users will determine the applicable financial reporting framework in such circumstances (which is referred to in this Auditing Standard as “an alternative comprehensive basis of accounting”). A financial report prepared in accordance with such financial reporting frameworks may be the only financial report prepared by an entity and, in such circumstances, is often used by users in addition to those for whom the financial reporting framework is designed. Despite the broad distribution of the financial report in those circumstances, the financial report is still considered to be designed to meet the financial information needs of specific users for purposes of the Auditing Standard. In addition, although specific users may not be identified, a financial report that is prepared in accordance with a framework that is not designed to achieve fair presentation is also considered to be prepared in accordance with an alternative comprehensive basis of accounting. Examples of financial reporting frameworks that are designed to address the needs of specific users include the following:
- The tax basis of accounting for a financial report that accompanies an entity’s tax return.
 - The cash receipts and disbursements basis of accounting for cash flow information that a business enterprise may be requested to prepare by creditors.
 - The financial reporting provisions of a government regulatory agency for a financial report prepared for regulatory purposes.
- 22 In Australia, “non-reporting entities” have the option to prepare a special purpose financial report in compliance with those Accounting Standards necessary to enable the financial report to meet the special purpose needs of the users³. Appendix 2 contains a

³ The Australian Accounting Standards Board (AASB) has prescribed certain Accounting Standards that are to be applied in full, regardless of whether the entity is a reporting entity or non-reporting entity. Appendix 2 contains further details on this matter.

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summary of the audit reporting requirements under the *Corporations Act 2001*.

- 23 **The auditor shall consider whether the financial report is intended, or purports, to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.**
- 24 This Auditing Standard is not applicable when the financial information upon which the auditor is to report is intended, or purports, to meet the information needs of such users. AUS 702 (Part A) deals with the auditor's report on a general purpose financial report prepared in accordance with a financial reporting framework designed to achieve fair presentation. Furthermore, AUS 204 *Terms of Audit Engagements*, deals with circumstances where there has been a change in the terms of the engagement.
- 25 **The auditor's report on a financial report prepared in accordance with an alternative comprehensive basis of accounting shall include a statement that indicates the basis of accounting used or shall refer to the note to the financial report giving that information.**
- 26 Pursuant to paragraph 13 of this Auditing Standard, the terms used to express the auditor's opinion on a financial report prepared in accordance with an alternative comprehensive basis of accounting designed to achieve fair presentation are "gives a true and fair view" or "presents fairly, in all material respects", which are equivalent terms. Pursuant to paragraph 13 of this Auditing Standard, the term used to express the auditor's opinion on a financial report prepared in accordance with an alternative comprehensive basis of accounting not designed to achieve fair presentation is "properly prepared, in all material respects". Appendix 1 to this Auditing Standard gives examples of auditor's reports on financial reports prepared in accordance with an alternative comprehensive basis of accounting.
- 27 Pursuant to paragraph 28 of this Auditing Standard, the auditor is required to consider whether the title of, or a note to, the financial report makes it clear to the reader that the report is not prepared in accordance with Accounting Standards in Australia. For example, a tax basis financial report might be entitled "Report of Income and Expenses — Income Tax Basis".
- 28 **If the financial report prepared on an alternative comprehensive basis is not suitably titled or the basis of accounting is not**

adequately disclosed, the auditor shall issue an appropriately modified report.

Reports on Components of a Financial Report

- 29 The auditor may be requested to express an opinion on one or more components of a financial report, for example, a single financial statement such as a balance sheet, accounts receivable, inventory, an employee's bonus calculation or a provision for income taxes. The component might be prepared to meet the financial information needs of specific users and have limited distribution, or may be intended to meet the information needs of a wide range of users and, therefore, prepared in accordance with the relevant requirements of an applicable financial reporting framework. This type of engagement may be undertaken as a separate engagement or in conjunction with an audit of the entity's financial report (AUS 702 (Part A) contains mandatory requirements and explanatory guidance in relation to the auditor's other reporting responsibilities). However, this type of engagement does not result in a report on the financial report taken as a whole and, accordingly, pursuant to paragraph 9 of this Auditing Standard, the auditor is required to express an opinion only on the component audited.
- 30 Many financial report items are interrelated, for example, sales and receivables, and inventory and payables. Accordingly, when reporting on a component of a financial report, the auditor may be unable to consider the subject of the audit in isolation and, pursuant to paragraph 31 of this Auditing Standard, is required to examine certain other financial information.
- 31 **In determining the scope of the engagement, the auditor shall consider those financial report items that are inter-related and which could materially affect the information on which the audit opinion is to be expressed.**
- 32 **The auditor shall consider the concept of materiality in relation to the component of a financial report being reported upon.**
- 33 For example, a particular account balance provides a smaller base against which to measure materiality compared with the financial report taken as a whole. Consequently, the auditor's examination will ordinarily be more extensive than if the same component were to be audited in connection with a report on the entire financial report.
- 34 **The auditor's report on a component of a financial report shall include a statement that indicates the applicable financial**

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reporting framework in accordance with which the component is presented or refers to an agreement that specifies the basis of accounting used.

- 35 Appendix 1 to this Auditing Standard gives examples of auditor's reports on components of a financial report.
- 36 **When a modified opinion on the entire financial report has been expressed, the auditor shall refer to the modification if:**
- (a) **the modification has a material effect on the component; or**
 - (b) **the auditor's report on the component is to be presented with the entire financial report or other significant components.**
- 37 **When an adverse opinion or disclaimer of opinion on the entire financial report has been expressed, the auditor shall report on components of the financial report only if those components are not so extensive as to constitute a major portion of the financial report. To do otherwise may overshadow the report on the entire financial report.**

Reports on Compliance with Contractual Agreements

- 38 The auditor may be requested to report on an entity's compliance with certain aspects of contractual agreements, such as bond indentures or loan agreements. Such agreements ordinarily require the entity to comply with a variety of covenants involving such matters as payments of interest, maintenance of predetermined financial ratios, restriction of dividend payments and the use of the proceeds of sales of property.
- 39 **Engagements to express an opinion as to an entity's compliance with contractual agreements shall be undertaken only when the overall aspects of compliance relate to accounting and financial matters within the scope of the auditor's professional competence.**
- 40 However, when there are particular matters forming part of the engagement that are outside the auditor's expertise, pursuant to paragraph AUS 606 *Using the Work of an Expert*, the auditor is required to consider using the work of an expert.

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41 The report shall state whether, in the auditor's opinion, the entity has complied with the particular provisions of the agreement.

42 Appendix 1 to this Auditing Standard gives an example of an auditor's report on compliance given in a separate report.

Reports on Summarised Financial Reports⁴

43 An entity may prepare a financial report summarising its annual audited financial report for the purpose of informing user groups interested in the highlights only of the entity's financial position and the results of its operations.

44 Unless the auditor has expressed an auditor's opinion on the financial report from which the summarised financial report was derived, the auditor shall not report on the summarised financial report.

45 Summarised financial reports are presented in considerably less detail than annual audited financial reports. Therefore, such financial reports ordinarily indicate the summarised nature of the information and caution the reader that, for a better understanding of an entity's financial position and the results of its operations, the summarised financial report is to be read in conjunction with the entity's most recent audited financial report which include all disclosures required by the relevant financial reporting framework.

46 Summarised financial reports are ordinarily titled to identify the audited financial report from which they have been derived, for example, "Summarised Financial Information Prepared from the Audited Financial Report for the Year Ended 31 December 20X1".

47 Summarised financial reports do not contain all the information required by the financial reporting framework used for the annual audited financial report. Consequently, wording such as "true and fair" or "presents fairly, in all material respects" is not used by the auditor when expressing an opinion on a summarised financial report.

⁴ This Auditing Standard does not address the auditor's report on a concise financial report prepared in accordance with the *Corporations Act 2001* and AASB 1039. Audit reporting considerations relating to concise financial reports will be addressed in a separate Guidance Statement.

- 48** **The auditor's report on a summarised financial report shall include the following basic elements ordinarily in the following layout:**
- (a)** **A title clearly identifying it as the report of an independent auditor.**
 - (b)** **An addressee.**
 - (c)** **An identification of the audited financial report from which the summarised financial report was derived, including the name of the entity and the reporting period covered by the financial report.**
 - (d)** **A reference to the date of the auditor's report on the unbridged financial report and the type of opinion given in that report.**
 - (e)** **A reference to Auditing Standards in Australia and relevant ethical requirements relating to audit engagements.**
 - (f)** **An opinion as to whether the information in the summarised financial report is consistent with the audited financial report from which it was derived. When the auditor has issued a modified opinion on the unbridged financial report yet is satisfied with the presentation of the summarised financial report, the auditor's report should state that, although consistent with the unbridged financial report, the summarised financial report was derived from a financial report on which a modified auditor's report was issued.**
 - (g)** **A statement, or reference to the note within the summarised financial report, which indicates that for a better understanding of an entity's financial performance and position and of the scope of the audit performed, the summarised financial report shall be read in conjunction with the unbridged financial report and the auditor's report thereon.**
 - (h)** **Date of the report.**
 - (i)** **Auditor's address.**
 - (j)** **Auditor's signature.**

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- 49 When relevant, the auditor's report ordinarily identifies any specific restriction on the distribution of the auditor's report or on those entitled to rely on it. Appendix 1 to this Auditing Standard gives an example of an auditor's report on a summarised financial report.

Conformity with International Standards on Auditing

- 50 This Auditing Standard conforms with International Standard on Auditing ISA 800 *The Auditor's Report on Special Purpose Audit Engagements* issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. The differences between this Auditing Standard and ISA 800 are:

- (a) this Auditing Standard includes the following mandatory requirements and associated explanatory guidance, whereas ISA 800 does not:
- unless required by law or regulation, the auditor's opinion on financial information, other than a summarised financial report, shall state whether:
 - ◆ the financial information "gives a true and fair view" or "presents fairly, in all material respects" in accordance with the applicable financial reporting framework when this framework is designed to achieve fair presentation; or
 - ◆ the financial information is "properly prepared, in all material respects" in accordance with the applicable financial reporting framework when this framework is not designed to achieve fair presentation (paragraph 13);
 - the auditor shall consider whether the financial report is intended, or purports, to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs (paragraph 23);
 - when a modified opinion on the entire financial report has been expressed, the auditor shall refer to the modification if:

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- ◆ the modification has a material effect on the component; or
 - ◆ the audit report on the component is to be presented with the entire financial report or other significant components (paragraph 36);
- (b) in this Auditing Standard, the matters the auditor is required to include in the auditor's report on a special purpose audit engagement has been updated based on the format used in revised AUS 702 (Part A) *The Independent Auditor's Report on a General Purpose Financial Report*, whereas a number of these matters are not required in ISA 800. Consequently, the example auditor's reports differ between this Auditing Standard and ISA 800; and
- (c) this Auditing Standard contains reference to the requirements of the *Corporations Act 2001* for special purpose financial reports prepared under that Act and includes a summary of the audit reporting responsibilities under the *Corporations Act 2001*.

APPENDIX 1

EXAMPLES OF AUDITOR'S REPORTS ON SPECIAL PURPOSE AUDIT ENGAGEMENTS

EXAMPLE 1: SPECIAL PURPOSE FINANCIAL REPORT (NON-CORPORATIONS ACT ENTITY)

Circumstances include the following:

- Audit of a special purpose financial report prepared by the entity in accordance with AASB 101 *Presentation of Financial Statements*, AASB 107 *Cash Flow Statements*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and AASB 1048 *Interpretation and Application of Standards* and the recognition and measurement requirements of all the accounting standards⁵ (i.e. a financial reporting framework designed for a special purpose and designed to achieve fair presentation).

INDEPENDENT AUDITOR'S REPORT

To the members of [name of entity]

Report on the Financial Report

We have audited the accompanying financial report, being a special purpose financial report, of [name of entity], which comprises the balance sheet as at 31 December 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes and the [those charged with governance⁶] declaration.⁷

The Responsibility of [Those Charged with Governance] for the Financial Report

[Those charged with governance] of the entity are responsible for the preparation and fair presentation of the financial report and have determined that the accounting policies described in Note 1 to the financial statements

⁵ For example, requirements relating to depreciation of non-current assets, tax effect accounting, lease accounting, measurements of inventories and recognition and measurement of liabilities for employee entitlements.

⁶ Insert title of those charged with governance – e.g. directors/trustees/committees. Insert appropriate title, when prompted, throughout the report.

⁷ When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial report is presented.

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which form part of the financial report are appropriate to meet the financial reporting requirements of the [constitution⁸] and are appropriate to meet the needs of the members. The [those charged with governance] responsibility also includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report 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 report based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note 1, are appropriate to meet the needs of the members. We conducted our audit in accordance with Auditing Standards in Australia. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, 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 report 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 control⁹. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors/trustees/committee, as well as evaluating the overall presentation of the financial report.

The financial report has been prepared for distribution to members for the purpose of fulfilling the [those charged with governance] financial reporting under the [constitution]. We disclaim any assumption of responsibility for any reliance on this report or on the financial report to which it relates to any person other than the members, or for any purpose other than that for which it was prepared.

⁸ Insert reference to appropriate mandate.

⁹ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances".

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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.

[Independence]

In conducting our audit, we have complied with the independence requirements of the Australian professional accounting bodies¹⁰.

Auditor's Opinion

In our opinion the financial report of [name of entity] presents fairly, in all material respects, in accordance with the accounting policies described in Note 1 to the financial statements, the financial position of [name of entity] as at 31 December 20X1 and of its performance for the year ended on that date.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

¹⁰ Include where appropriate.

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EXAMPLE 2: FINANCIAL REPORT PREPARED ON THE ENTITY'S INCOME TAX BASIS

Circumstances include the following:

- Audit of a financial report prepared by the 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 the purpose of filing the entity's income tax return (a special purpose).

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 31 December 20X1, and the income statement and a summary of significant accounting policies and other explanatory notes.

The [Responsibility of Those Charged with Governance]¹¹ for the Financial Report

[Those charged with governance] are responsible for the preparation and presentation of the financial report in accordance with the tax basis of accounting for the purpose of [describe purpose e.g. filing the income tax return with the relevant tax authority]. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of the financial report 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 report based on our audit. We conducted our audit in accordance with Auditing Standards in Australia. Those Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected

¹¹ Insert title of those charged with governance – e.g. directors/trustees/committees. Insert appropriate title, when prompted, throughout the report.

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depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, 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 report 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 [those charged with governance], as well as evaluating the overall presentation of the financial report.

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

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

Auditor's Opinion

In our opinion, the financial report of [name of entity] for the year ended 31 December 20X1 has been properly prepared, in all material respects, in accordance with the tax basis of accounting.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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EXAMPLE 3: STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

Circumstances include the following:

- Audit of a statement of cash receipts and disbursements prepared by 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 (a special purpose)

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

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

The Responsibility of [Those Charged with Governance]¹² for the Financial Statement

[Those charged with governance] are responsible for the preparation and presentation of this 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: designing, implementing and maintaining internal control relevant to the preparation and presentation of the 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 statement based on our audit. We conducted our audit in accordance with Auditing Standards in Australia. Those Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those

¹² Insert title of those charged with governance – e.g. directors/trustees/committees. Insert appropriate title, when prompted, throughout the report.

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risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the 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.

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.

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

Auditor's Opinion

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

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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EXAMPLE 4: SCHEDULE OF ACCOUNTS RECEIVABLE

Circumstances include the following:

- Audit of accounts receivable prepared by the entity in accordance with Accounting Standards in Australia (i.e. a financial reporting framework designed for a general purpose to achieve fair presentation, including fair presentation of the specific information presented), to comply with the requirements of a loan agreement (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 31 December 20X1.

The [Responsibility of Those Charged with Governance]¹³ for the Schedule

[Those charged with governance] are responsible for the preparation and fair presentation of the schedule in accordance with Accounting Standards in Australia for the purpose of complying with section X or loan agreement Y between ABC Company and DEF Bank. This responsibility includes: determining that the Accounting Standards in Australia 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 Auditing Standards in Australia. Those Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements 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

¹³ Insert title of those charged with governance – e.g. directors/trustees/committees. Insert appropriate title, when prompted, throughout the report.

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the auditor's judgement, 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 [those charged with governance], as well as evaluating the overall presentation of the schedule.

The schedule of accounts receivable and significant accounting policies and explanatory notes have been prepared in accordance with Accounting Standards in Australia for the 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.

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

Auditor's Opinion

In our opinion, the schedule of accounts receivable and summary of significant accounting policies and other explanatory notes presents fairly, in all material respects, (or "gives a true and fair view of") the accounts receivable of ABC Company as of 31 December 20X1 in accordance with Accounting Standards in Australia that are relevant to the preparation and fair presentation of the schedule of accounts receivable.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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EXAMPLE 5: COMPLIANCE WITH A CONTRACTUAL AGREEMENT

Circumstances include the following:

- Audit of an entity's compliance with the accounting and financial reporting matters of an Indenture with DEF Bank.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Report

We have audited [name of entity]'s compliance with the accounting and financial reporting matters of section xx to xx inclusive of the Indenture dated [insert date] with DEF Bank as of 31 December 20X1 and the year then ended.

The [Responsibility of Those Charged with Governance]¹⁴ for Compliance

[Those charged with governance] are responsible for ensuring compliance with the accounting and financial reporting matters of section xx to xx inclusive of the indenture. This responsibility includes: [include description of the responsibility of those charged with governance].

Auditor's Responsibility

Our responsibility is to express an opinion on whether [name of entity] has complied with the relevant sections of the Indenture. We conducted our audit in accordance with Auditing Standards in Australia. Those Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether [name of entity] has complied with the relevant sections of the Indenture.

An audit involves [include description of audit procedures].

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

¹⁴ Insert title of those charged with governance – e.g. directors/trustees/committees. Insert appropriate title, when prompted, throughout the report.

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Auditor's Opinion

In our opinion, the entity was, in all material respects, in compliance with the accounting and financial reporting matters of the sections of the Indenture referred to in the preceding paragraphs as of 31 December 20X1.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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EXAMPLE 6: SUMMARISED FINANCIAL REPORT

Circumstances include the following:

- An unmodified opinion was expressed on the financial report from which the summary financial report has been derived.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Report

We have audited the accompanying summarised financial report, comprising the summary balance sheet as at 31 December 20X1, the summary income statement, statement of changes in equity and cash flow statement for the year then ended, and related notes, which was derived from the financial report of ABC Company for the year ended 31 December 20X1. We expressed an unmodified auditor's opinion on that financial report in our auditor's report dated [insert date].

The Responsibility of [Those Charged with Governance]¹⁵ for the Summarised Financial Report

[Those charged with governance] are responsible for the preparation and presentation of the summarised financial report in accordance with [describe established criteria].

Auditor's Responsibility

Our responsibility is to express an opinion on the summarised financial report based on our procedures, which were conducted in accordance with Auditing Standards in Australia.

Auditor's Opinion

In our opinion, the information reported in the summarised financial report is consistent with the financial report from which it was derived. For a better understanding of the scope of our audit, this auditor's report should be read in conjunction with our audit report on the financial report.

[Auditor's signature]

¹⁵ Insert title of those charged with governance – e.g. directors/trustees/committees. Insert appropriate title, when prompted, throughout the report.

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[Date of the auditor's report]

[Auditor's address]

APPENDIX 2

SUMMARY OF AUDIT REPORTING REQUIREMENTS UNDER THE CORPORATIONS ACT 2001

- 1 The purpose of this Appendix is to provide explanatory guidance on the effect of the reporting entity concept on auditor's reports prepared pursuant to the *Corporations Act 2001* (the "Act") for entities reporting under the Act that are not reporting entities (i.e. non reporting entities)¹⁶.
- 2 The determination as to whether an entity is a reporting entity rests with its directors. Guidance as to what constitutes a reporting entity is contained in Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* issued by the Australian Accounting Standards Board ("AASB"). A further definition is contained in AASB 3 *Business Combinations* as:

"An entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial report for information that will be useful to them for making and evaluating decision about the allocation of resources."
- 3 The directors' determination as to whether an entity is a reporting or non-reporting entity is important, as this decision directly impacts the level of disclosure in the entity's financial report. Non-reporting entities are not required to prepare general purpose financial reports and are instead permitted to prepare a special purpose financial report for the purpose of fulfilling the directors' financial reporting requirements of the *Corporations Act 2001*.

Financial Reporting Requirements of the Act

Requirement for an entity to prepare a Financial Report

- 4 Section 292 of the Act requires that a financial report and a directors' report must be prepared for each financial year by:
 - (a) all disclosing entities; and
 - (b) all public companies; and
 - (c) all large proprietary companies; and

¹⁶ This summary is not intended to contain an exhaustive summary of all the auditor's reporting responsibilities under the *Corporations Act 2001*.

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(d) all registered schemes.

5 Section 293 of the Act provides that shareholders with at least 5% of the votes in a small proprietary company may give the company a direction to:

(a) prepare a financial report and directors' report for a financial year; and

(b) send them to all shareholders.

In addition, under section 294, the Australian Securities and Investments Commission (ASIC) may give a small proprietary company a direction to comply with requirements of Division 1 3, 4, 5 and 6 of the Act for a financial year.

Contents of a Special Purpose Financial Report

6 Section 295 of the Act specifies that the financial report for a financial year consists of:

(a) the financial statements for the year; and

(b) the notes to the financial statements; and

(c) the directors' declaration about the statements and notes.

Compliance with Accounting Standards for Non-Reporting Entities

3. Each Accounting Standard indicates its applicability to reporting entities. The following Accounting Standards apply to all entities, irrespective of whether they are reporting entities or not:

(a) AASB 101 *Presentation of Financial Statements*;

(b) AASB 107 *Cash Flow Statements*;

(c) AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*; and

(d) AASB 1048 *Interpretation and Application of Standards*.

Audit Reporting Responsibilities of the Act

7 Section 307 of the Act requires an auditor who conducts an audit of the financial report for a financial year or half-year to form an opinion about:

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- (a) whether the financial report is in accordance with this Act, including:
 - (i) section 296 or 304 (compliance with accounting standards); and
 - (ii) section 297 or 305 (true and fair view) and
 - (b) if the financial report includes additional information under paragraph 295(3)(c) or 303(3)(c) (information included to give true and fair view of financial position and performance) — whether the inclusion of that additional information was necessary to give the true and fair view required by section 297 or 305;
 - (c) whether the auditor has been given all information, explanation and assistance necessary for the conduct of the audit; and
 - (d) whether the company, registered scheme or disclosing entity has kept financial records sufficient to enable a financial report to be prepared and audited; and
 - (e) whether the company, registered scheme or disclosing entity has kept other records and registers as required by this Act.
- 8 Section 308 and 309 of the Act specify the specific matters on which the auditor is required to report to members.
- 9 In the case of a special purpose financial report prepared by a non-reporting entity, the auditor's reporting responsibilities can be met by reporting whether the financial report is '....true and fair in accordance with (an identified financial reporting framework).'
- 10 When an auditor disagrees with the directors' determination that an entity is a non-reporting entity, pursuant to AUS 702 (Part B), the auditor is required to issue a modified auditor's report as this would be a breach of the requirement for the entity's financial report to comply with accounting standards.

ASIC Guide – Reporting Requirements for Non-Reporting Entities

- 11 In July 2005, ASIC issued a Guide on the *Requirements for Non-Reporting Entities*, which replaces Information Release [IR 00/025] *Reporting requirements for non-reporting entities*. This guide

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provides guidance on application of the reporting entity tests and the reporting obligations for non-reporting entities.

- 12 This Guide *inter-alia* advocates adoption of the recognition and measurement requirements of Accounting Standards for non-reporting entities required to prepare financial reports under the *Corporations Act 2001*.

Other Requirements – Professional Accounting Bodies

- 13 In addition to the requirements outlined above, the professional accounting bodies in Australia may also prescribe certain audit reporting requirements relating to special purpose financial reports not mandated by this Auditing Standard.

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EXAMPLE OF AN UNMODIFIED AUDITOR'S REPORT – SINGLE CORPORATE ENTITY (NON-REPORTING ENTITY)

INDEPENDENT AUDITOR'S REPORT

To the members of [name of entity]

Report on the Financial Report

We have audited the accompanying financial report, being a special purpose financial report, of [name of entity], which comprises the balance sheet as at 31 December 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes and the directors' declaration.¹⁷

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report and have determined that the accounting policies described in Note 1 to the financial statements which form part of the financial report are appropriate to meet the requirements of the *Corporations Act 2001* and are appropriate to meet the needs of the members. The directors' responsibility also includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report 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 report based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note 1, are appropriate to meet the needs of the members. We conducted our audit in accordance with Auditing Standards in Australia. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected

¹⁷ When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial report is presented.

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depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, 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 report 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.¹⁸ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

The financial report has been prepared for distribution to members for the purpose of fulfilling the directors' financial reporting under the *Corporations Act 2001*. We disclaim any assumption of responsibility for any reliance on this report or on the financial report to which it relates to any person other than the members, or for any purpose other than that for which it was prepared.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of [name of company/registered scheme/disclosing entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.¹⁹

Auditor's Opinion

In our opinion the financial report of [name of entity] is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 31 December

¹⁸ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances."

¹⁹ Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the audit report was made.

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20X1 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 1; and

- (b) complying with Accounting Standards in Australia to the extent described in Note 1 and complying with the Corporations Regulations 2001.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Table of Proposed Changes from AUS 802 <i>The Auditor's Report on Special Purpose Audit Engagements</i>
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Base Standard

ISA 800 *The Auditor's Report on Special Purpose Audit Engagements*, was used as the base standard when drafting this proposed Auditing Standard.

Main differences between the Base Standard and the existing AUS 802

The main differences between ISA 800 and the existing AUS 802 are:

1. the structure of ISA 800 differs from AUS 802. ISA 800 deals with five distinct topics – general considerations for the auditor's report on special purpose audit engagements; the auditor's report on financial reports prepared in accordance with an alternative comprehensive basis of accounting; reports on components of financial reports, reports on compliance with contractual agreements and reports on summarised financial reports. Whereas, AUS 802 deals with four distinct topics – general considerations for the auditor's report on special purpose audit engagements; special purpose audit reports; "other" financial information (including components of a financial report) and summarised financial reports. AUS 802 does not specifically deal with reports on compliance with contractual agreements.
2. the basic elements required in the auditor's report and, consequently, the example auditor's reports contained in the appendices, differ between ISA 800 and AUS 802.
3. ISA 800 contains the following mandatory requirements, and associated explanatory guidance, whereas AUS 802 does not:
 - a. the auditor shall consider whether any significant interpretations of an agreement on which the financial information is based are clearly disclosed in the financial information (whereas previously, the auditor was required to consider whether any significant interpretations of the agreement have been made in preparing the information only) (paragraph 19)
 - b. the auditor's report on a financial report prepared in accordance with an alternative comprehensive basis of accounting shall include a statement that indicates the basis of accounting used or shall refer to the note to the financial report giving that information (paragraph 25);
 - c. if the financial report prepared on an alternative comprehensive basis of accounting is not suitably titled or the basis of accounting is not adequately disclosed, the auditor shall issue an appropriately modified report (paragraph 28);
 - d. the auditor's report on a component of a financial report shall include a statement that the applicable financial reporting framework in accordance with which the component is presented or refers to an agreement that specifies the basis of accounting used (paragraph 34);
 - e. engagements to express an opinion as to an entity's compliance with contractual agreements shall be undertaken only when the overall aspects of compliance relate to accounting and financial matters within the scope of the auditor's professional competence (paragraph 39); and
 - f. the report should state whether, in the auditor's opinion, the entity has complied with the particular provisions of the agreement (paragraph 41).
4. AUS 802 contains the following mandatory requirements and explanatory guidance whereas ISA 800 does not:

- a. The auditor should consider whether the financial information, when in the form of a financial report, is intended, or purports, to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs (AUS 802 paragraph .05);
 - b. AUS 702 should be applied to audits of financial information other than general purpose financial reports, except to the extent that the requirements of this AUS differ from the requirements of AUS 702 (AUS 802 paragraph .09);
 - c. when the financial reporting framework has been determined on behalf of the users by a party other than the addressee of the audit report, that party should be identified in the audit report (AUS 802 paragraph .17);
 - d. although the auditor's responsibility is to form an opinion regarding presentation in accordance with an identified financial reporting framework, rather than whether the framework adopted is appropriate to the needs of users, when the framework adopted is clearly likely to mislead users of the financial report, the auditor should:
 - e. consider the steps taken by the preparers of the financial report to determine that the financial reporting framework is appropriate to the needs of the users;
 - f. consider whether the users identified are the only likely users and the possibility that the financial report will be purported to be a general purpose financial report; and
 - g. give particular attention to the disclosure of the framework, including consideration of whether the use of any conventional terminology within the financial report needs to be modified or embellished (AUS 802 paragraph .19);
 - h. the auditor should consider the concept of materiality in relation to 'other' financial information (AUS 802 paragraph .24);
 - i. when a qualified audit opinion has been expressed on the financial report, the audit report on the component should refer to the qualification if:
 - i. the qualification has a material effect on the component; or
 - ii. the audit report on the component is to be presented with the entire financial report or other significant components (AUS 802 paragraph .25);
 - j. notwithstanding:
 - i. that a summarised financial report will not contain all the disclosures required of a general purpose financial report; and
 - ii. the absence of a generally accepted financial reporting framework for the preparation of summarised financial reports, and the auditor should express a qualified audit opinion if there are any matters fundamental to an understanding of the summarised financial report which, by their omission, have rendered the summarised financial report misleading (AUS 802 paragraph .30); and
 - k. when the auditor expresses a qualified audit opinion on the summarised financial report or has expressed a qualified audit opinion on the unabridged financial report, the title of the audit report on the summarised financial report should reflect this fact, for example "Qualified Report of the Independent Auditor"(AUS 802 paragraph .34);
5. AUS 802 contains reference to APS 1 *Conformity with Accounting Standards in Australia and UIG Consensus Views* and a summary of the impact of the reporting entity concept on audit reports issued under the *Corporations Act 2001*, whereas ISA 800 does not.

Table of proposed changes from the Base Standard

The table below details the proposed changes from the base standard, ISA 800 (excluding changes to reflect Australian terminology and references to Australian Auditing Standards).

Paragraph No. in Proposed Exposure Draft	Status (Requirement, Guidance, Footnote or Appendix)	Description of Proposed Change(s)
1, 2	Requirement / Guidance	New Application paragraphs.
3	Requirement	Insert Operative Date paragraph.
5, 7, 9, 17, 19, 25, 28, 31, 34, 37, 39, 41, 44, 48	Requirement	Replace “should’ with “shall”.
8, 45, 46	Guidance	Insert “ordinarily” to clarify implied obligations.
8, 18, 26, 27, 29, 30, 40, 47	Guidance	Insert “pursuant to...the auditor is required to...” to clarify implied obligations.
4		Change the following terms: <ul style="list-style-type: none"> • “standards to “mandatory requirements” • “guidance” to “explanatory guidance”
4, 15, 22	Guidance / Appendix / Footnote	Insert reference to specific requirements for SPFR’s prepared in accordance with the <i>Corporations Act 2001</i> . Inserted Appendix and example auditor’s reports relating to SPFR’s prepared in accordance with that Act.
4	Footnote	Insert footnote to alert user to the fact that this standard does not address concise financial reports in the section on “summarised financial reports.”
Between 8 and 9, Between 12 and 13, Between 15 and 16	Guidance	Insert sub-headings.
9	Requirement / Appendix	Update the elements the auditor is required to include in the auditor’s report on a special purpose audit engagement.

Paragraph No. in Proposed Exposure Draft	Status (Requirement, Guidance, Footnote or Appendix)	Description of Proposed Change(s)
10	Guidance	Insert guidance relating to other matters that, when relevant, the auditor ordinarily includes in the auditor's report. Points 9(a), 9(b) and 9(d) are matters the auditor is required to include in the auditor's report under APS 1. Points 9(c) and 9(e) have been taken from the existing AUS 802.
11	Guidance	Insert paragraph relating to other reporting requirements (mandatory requirements contained in AUS 702 (Part A)).
13, 14, 26	Requirement / Guidance	<p>Insert the following black letter requirement (and associated guidance in paragraph 14):</p> <p>“Unless required by law or regulation, the auditor’s opinion on financial information, other than a summarised financial report, shall state whether:</p> <p>(a) the financial information “gives a true and fair view” or “presents fairly, in all material respects” in accordance with the applicable financial reporting framework when this framework is designed to achieve fair presentation; or</p> <p>(b) the financial information is “properly prepared, in all material respects” in accordance with the applicable financial reporting framework when this framework is not designed to achieve fair presentation”.</p> <p>Reference to the wording of the auditor’s opinion in ISA paragraphs 10 and 16 have also been deleted.</p>
48	Requirement	Update the elements the auditor is required to include in the auditor's report on a summarised financial report.
23, 24	Requirement / Guidance	<p>Insert the following black letter requirement (and associated guidance in paragraph 24):</p> <p>“The auditor shall consider whether the financial report is intended, or purports, to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.”</p>

Paragraph No. in Proposed Exposure Draft	Status (Requirement, Guidance, Footnote or Appendix)	Description of Proposed Change(s)
36	Requirement	Insert the following black letter requirement: “When a qualified opinion on the entire financial report has been expressed, the auditor shall refer to the qualification if: (a) the qualification has a material effect on the component; or (b) the audit report on the component is to be presented with the entire financial report or other significant components.”
20	Guidance	Insert reference to AUS 702 (Part B).