

# ASA 800 The Auditor's Report on Special Purpose Audit Engagements

## OBJECTIVE

The objective of this fact sheet is to explain the auditor's responsibility 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;
- compliance with contractual agreements; and
- a summarised financial report.

## APPLICATION

Financial reporting periods commencing on or after 1 July 2006.

## THE AUDITOR'S RESPONSIBILITY

The auditor is required under ASA 800 to 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 is required to contain a clear written expression of opinion.

## GENERAL CONSIDERATIONS

The nature, timing and extent of work to be performed in a special purpose audit engagement will vary with the circumstances. Before undertaking a special purpose audit engagement, the auditor is required under ASA 800 to 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.

In planning the audit work, the auditor needs 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.

The auditor's report on a special purpose audit engagement, except for a report on a summarised financial report, is required to include specific basic elements contained in ASA 800 (eg title, addressee etc). When relevant, the auditor ordinarily includes also the following elements:

- identification of the purpose for which the information has been prepared and, if necessary, the intended users;
- 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;
- the extent to which Australian Accounting Standards have, or have not, been adopted in its preparation and presentation; and
- identification of any specific restriction on the distribution of the auditor's report or on those entitled to rely on it.

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. *ASA 700 The Auditor's Report on a General Purpose Financial Report* contains mandatory requirements and explanatory guidance where the auditor has such additional reporting responsibilities.

When requested to report in a prescribed format, the auditor is required under ASA 800 to consider the substance and wording of the prescribed report and, when necessary, to make appropriate changes to conform to the requirements of ASA 800, either by rewording the form or by attaching a separate report.

The auditor is required under ASA 800 to consider whether any significant interpretations of an agreement on which the financial information is based are clearly disclosed in the financial information. When the information on which the auditor has been requested to report is based on the provisions of an agreement, the auditor needs 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.

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, under *ASA 701 Modifications to the Auditor's Report*, the auditor needs to consider the effect on the auditor's report.

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## REPORTS ON FINANCIAL REPORTS PREPARED IN ACCORDANCE WITH AN ALTERNATIVE COMPREHENSIVE BASIS OF ACCOUNTING

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. 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 users. The information needs of such users will determine the applicable financial reporting framework in such circumstances (referred to in ASA 800 "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 other 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 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; and
- the financial reporting provisions of a government regulatory agency for a financial report prepared for regulatory purposes.

In Australia, "non-reporting entities" have the option to prepare a special purpose financial report in compliance with those Australian Accounting Standards necessary to enable the financial report to meet the special purpose needs of users. The auditor is required under ASA 800 to 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.

The auditor needs to understand the exact nature of the engagement and the purpose for which the financial report is prepared. ASA 800 is not applicable when the financial information upon which the auditor is to report is intended, or purports, to be a general purpose financial report. When, in the auditor's opinion, the financial report is, or purports, to be a general purpose financial report, ASA 700 is applicable.

The auditor's report on a financial report prepared in accordance with an alternative comprehensive basis of accounting is required under ASA 800 to include a statement that indicates the basis of accounting used or refer to the note to the financial statements giving that information. The opinion is required to state whether the financial report gives a true and fair view or presents fairly, in all material respects, in accordance with the identified basis of accounting.

The phrases "gives a true and fair view" or "presents fairly, in all material respects" are equivalent terms under ASA 800. Which of these phrases is used may be determined by the law or regulations governing the audit of the financial report. For example, 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 all other cases, the auditor's opinion on a financial report prepared in accordance with an alternative comprehensive basis of accounting ordinarily uses the phrase "presents fairly, in all material respects". Appendix 1 to ASA 800 gives examples of auditor's reports on financial reports prepared in accordance with an alternative comprehensive basis of accounting.

Although the auditor's responsibility is to form an opinion regarding presentation in accordance with the identified basis of accounting, 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 is required under ASA 800 to:

- 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;
- 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
- 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.

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 is required under ASA 800 to issue an appropriately modified report. The auditor needs to consider whether the title of, or a note to, the financial statements makes it clear to the reader that the report is not prepared in accordance with Australian Accounting Standards. For example, a tax basis financial report might be entitled "Report of Income and Expenses — Income Tax Basis".

# ASA 800 The Auditor's Report on Special Purpose Audit Engagements

## REPORTS ON COMPONENTS OF A FINANCIAL REPORT

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 (ASA 700 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, an opinion is only expressed on the component.

In determining the scope of the engagement, the auditor is required under ASA 800 to 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. Many financial report items are inter-related, 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 needs to examine certain other financial information.

The auditor is required under ASA 800 to consider the concept of materiality in relation to the component of a financial report being reported upon. 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.

The auditor's report on a component of a financial report is required under ASA 800 to 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. The opinion is required to state whether the component gives a true and fair view or presents fairly, in all material respects, in accordance with the applicable financial reporting framework or identified basis of accounting.

The phrases "gives a true and fair view" or "presents fairly, in all material respects" are equivalent terms. However, the auditor's opinion on a component of a financial report ordinarily uses the phrase "presents fairly, in all material respects". Appendix 1 to ASA 800 gives an example of an auditor's report on a component of a financial report.

When a modified opinion on the entire financial report has been expressed, the auditor is required under ASA 800 to refer to the modification in the auditor's report if:

- the modification has a material effect on the component; or
- on the date of signing the auditor's report, the auditor is aware that the auditor's report on the component is to be presented with the entire financial report or other significant components.

The auditor ordinarily confirms with the entity, prior to signing the auditor's report, whether or not the auditor's report on the component is to be presented with the entire financial report or other significant components. When an adverse opinion or disclaimer of opinion on the entire financial report has been expressed, the auditor is required under ASA 800 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

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. Engagements to express an opinion as to an entity's compliance with contractual agreements is required under ASA 800 to be undertaken only when the overall aspects of compliance relate to accounting and financial matters within the scope of the auditor's professional competence. When there are particular matters forming part of the engagement that are outside the auditor's expertise, under ASA 620 *Using the Work of an Expert*, the auditor needs to consider using the work of an expert.

The report is required under ASA 800 to state whether, in the auditor's opinion, the entity has complied with the particular provisions of the agreement. Appendix 1 to ASA 800 gives an example of an auditor's report on compliance given in a separate report.

# ASA 800 The Auditor's Report on Special Purpose Audit Engagements

## REPORTS ON SUMMARISED FINANCIAL REPORTS

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. Unless the auditor has expressed an auditor's opinion on the financial report from which the summarised financial report was derived, the auditor is not required under ASA 800 to report on the summarised financial report. Appendix 1 to ASA 800 gives an example of an auditor's report on a summarised financial report.

Summarised financial reports are presented in considerably less detail than annual audited financial reports. Therefore, such financial reports ought to 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.

Summarised financial reports ought to be 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 30 June 20XX".

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. The auditor's report on a summarised financial report is required under ASA 800 to include the following basic elements in addition to a title and addressee, date, auditor's address and signature:

- 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;
- a reference to the date of the auditor's report on the unabridged financial report and the type of opinion given in that report;
- a reference to Australian Auditing Standards and relevant ethical requirements relating to audit engagements;
- 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 unabridged financial report yet is satisfied with the presentation of the summarised financial report, the auditor's report should state that, although consistent with the unabridged financial report, the summarised financial report was derived from a financial report on which a modified auditor's report was issued;
- 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 is to be read in conjunction with the unabridged financial report and the auditor's report thereon;

## SUMMARY OF REPORTING REQUIREMENTS UNDER THE *CORPORATIONS ACT 2001* (APPENDIX 2 ASA 800)

The determination as to whether an entity is a reporting entity rests with those charged with governance of the entity. 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 Australian Accounting Standard 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".

The determination as to whether an entity is a reporting or non-reporting entity is important, as this decision directly impacts on 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*

Section 292 of the Act requires that a financial report and a directors' report must be prepared for each financial year by:

- all disclosing entities; and
- all public companies; and
- all large proprietary companies; and
- all registered schemes.

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:

- prepare a financial report and directors' report for a financial year; and
- 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.

# ASA 800 The Auditor's Report on Special Purpose Audit Engagements

## *Contents of a special purpose financial report*

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

- the financial statements for the year; and
- the notes to the financial statements; and
- the directors' declaration about the statements and notes.

## *Compliance with accounting standards for non-reporting entities*

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

## **ASIC Guide – Reporting Requirements for Non-Reporting Entities**

In July 2005, ASIC issued a Guide on the *Requirements for Non-Reporting Entities*. This guide provides guidance on application of the reporting entity tests and the reporting obligations for non-reporting entities.

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**

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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