

(April 2006)

Explanatory Statement

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

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



Australian Government

Auditing and Assurance Standards Board

Explanatory Statement

Reasons for Issuing ASA 800 *The Auditor's Report on Special Purpose Audit Engagements*

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 800 *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* 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 are legislative instruments under the *Legislative Instruments Act 2003*.

Process of making Auditing Standards

Section 1455 of the *Corporations Act 2001* and *Corporations Regulation 10.5.01* gave interim legal endorsement from 1 July 2004 to the majority of Auditing Standards made by the former Auditing & Assurance Standards Board of the Australian Accounting Research Foundation. The AUASB has reviewed the Auditing Standards and has proceeded to make them as legally enforceable Auditing Standards under the *Corporations Act 2001*.

The Auditing Standards have been made also in accordance with the Financial Reporting Council's Strategic Direction to the AUASB dated 6 April 2005, pursuant to section 225 of the *ASIC Act*.

The Strategic Direction, *inter alia*, provides that the AUASB develops Auditing Standards that:

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- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as a base;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the Strategic Direction, the AUASB has undertaken a process of thorough review and revision that has:

- addressed the enforceability of mandatory requirements;
- clarified auditors' obligations under the Auditing Standards;
- provided for sector neutrality in the Auditing Standards; and
- included other amendments as necessary.

Purpose of Auditing Standard ASA 800 *The Auditor's Report on Special Purpose Audit Engagements*

The purpose of Auditing Standard ASA 800 is to establish mandatory requirements and to provide explanatory guidance in connection with special purpose audit engagements including:

- (a) 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*;
- (b) 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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- (c) compliance with contractual agreements; and
- (d) a summarised financial report.

Auditing Standard ASA 800 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.

Operative Date

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

Main changes from Auditing Standard AUS 802 (May 2002) *The Audit Report on Financial Information Other Than a General Purpose Financial Report*

The main differences between ASA 800 and AUS 802 are that in ASA 800:

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 is described in AUS 802 by the word 'should'.
2. The explanatory paragraphs provide guidance and illustrative examples to assist the auditor in fulfilling the mandatory requirements, whereas in AUS 802 some obligations are implied within certain explanatory paragraphs. Accordingly, such paragraphs have been redrafted to clarify that they form part of the explanatory guidance.
3. The basic elements required in the auditor's report on a special purpose audit engagement, except for a report on a summarised financial report, have been updated based on the basic elements prescribed in ASA 700 *The Auditor's Report*

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on a General Purpose Financial Report. Consequently, the example auditors' reports in Appendix 1 have also been updated. The basic elements required in the auditor's report on a summarised financial report have been updated based on the basic elements prescribed in ISA 800 *The Independent Auditor's Report on a Special Purpose Audit Engagement*, but also contain some basic elements prescribed in ASA 700.

4. The following additional mandatory requirements are included (these mandatory requirements are either not contained in AUS 802 or have been expanded in this Auditing Standard):

General Considerations

- (a) When requested to report in a prescribed format, the auditor shall consider the substance and wording of the prescribed format 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 (paragraph 13). In AUS 802, when requested to report on financial information in a prescribed format, the auditor should consider whether there are any restrictions on the substance and wording of the report that would constitute a limitation on the scope of the audit that could not be overcome either by rewording the prescribed format or by attaching a separate report.
- (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 (paragraph 15). In AUS 802, when the information on which the auditor has been engaged to express an opinion is based on provisions of an agreement, the auditor should consider whether any significant interpretations of the agreement have been made in preparing the information.

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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. The opinion shall 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 (paragraph 22).
- (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 25).

Reports on Components of a Financial Report

- (e) 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 (paragraph 28). In AUS 802, when deciding whether to accept a separate engagement to express an audit opinion on a component(s) of a financial report, the auditor should consider whether the scope of the proposed engagement is sufficient to allow adequate attention to be paid to the inter-relationship that exists between various components.
- (f) The auditor shall consider the concept of materiality in relation to the component of a financial report being reported upon (paragraph 30). In AUS 802, the auditor should consider the concept of materiality in relation to 'other' financial information.

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- (g) 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. The opinion shall 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 (paragraph 32).

Reports on Compliance with Contractual Agreements

- (h) 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).
 - (i) The report shall state whether, in the auditor's opinion, the entity has complied with the particular provisions of the agreement (paragraph 41).
5. The mandatory requirements contained in paragraphs .09, .10, .17, .30 and .34 of AUS 802 are not included in this Auditing Standard. These mandatory requirements have been superseded by new mandatory requirements of this Auditing Standard or other Auditing Standards.
 6. The matters dealt with in Appendix 2, Summary of Audit Reporting Requirements Under the *Corporations Act 2001* have been updated.

Consultation prior to issuing this Auditing Standard

The AUASB has consulted publicly as part of its due process in developing this Auditing Standard. Exposure Draft ED 35/05 *Proposed Auditing Standard: The Audit Report on Financial Information Other than a General Purpose Financial Report (Re-issuance of AUS 802)* was issued on 16 December 2005 with a 45 day comment period. Submissions were received by the AUASB and it has considered these submissions as part of the development and finalisation of this Auditing Standard.