*Practice Note1 to International Standard on Auditing (ISA) 800*

Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

**Background**

This Practice Note provides supplementary guidance on ISA 800 – Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks. It is read together with the ISA. ISA 800 is effective for audits of financial statements for periods ending on or after December 15, 2016. The Practice Note is effective the same date as the ISA.

**Introduction to the ISA**

ISAs in the 100-700 series apply to an audit of financial statements. ISA 800 deals with special considerations in the application of those ISAs to an audit of financial statements prepared in accordance with a special purpose framework.

ISA 800 is written in the context of a complete set of financial statements prepared in accordance with a special purpose framework. ISA 805 deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement. ISA 810 deals with the auditor’s responsibilities relating to an engagement to report on summary financial statements derived from financial statements audited in accordance with ISAs by that same auditor.

ISA 800 does not override the requirements of the other ISAs; nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

**Content of the Practice Note**

P1. The Practice Note provides additional guidance for public sector auditors related to:

(a) Overall Considerations.

(b) Definitions of Special Purpose Frameworks.

(c) Considerations When Accepting the Engagement.

(d) Forming an Opinion and Reporting Considerations.

**Applicability of the ISA in Public Sector Auditing**

P2. ISA 800 is applicable to auditors of public sector entities when engaged to audit financial statements prepared in accordance with special purpose frameworks.

**Additional Guidance on Public Sector Issues**

Overall Considerations

P3. The objectives of public sector audits of financial statements may be broader than the objective defined in the underlying ISA. Examples on such broader objectives could be reporting responsibilities on instances of non-compliance with authorities including budget and accountability, and/or reporting on the effectiveness of internal control. If such other reporting responsibilities apply, the audit work should be considered subjected to ISSAs on performance audits or compliance audits. Other relevant frameworks or standards could be relevant. Forming an opinion and reporting on objectives other than those covered by the ISA800 should follow the guidance in P9 of this PN.

**Definitions of Special Purpose Frameworks**

P4. As stated in paragraph 6(b) of the ISA, “special purpose financial statements” are financial statements prepared in accordance with a special purpose framework, which is a framework designed to meet the financial information needs of specific users.

P5. In addition to preparing general purpose financial statements, a public sector entity may prepare financial statements for other parties (such as governing bodies, the legislature or other parties that perform an oversight function) that can demand financial statements tailored to meet their specific information needs. In some environments such financial statements are the only financial statements prepared by the public sector entity. Based on paragraph A4 of the ISA, even when such financial statements are the only financial statements prepared by the public sector entity, they are considered to be special purpose financial statements. Public sector auditors, therefore, carefully examine whether the financial reporting framework is designed to meet the financial information needs of a wide range of users (“general purpose framework”) or the financial information needs of specific users.

P6. Paragraph A1 of the ISA provides examples of special purpose frameworks. Other examples may include the financial reporting provisions of a grant facility or a specific public sector program.

**Considerations When Accepting the Engagement**

P7. Paragraph 8 of the ISA explains that an understanding of the steps taken by management to determine that the financial reporting framework is acceptable in the circumstances may assist the auditor in determining the acceptability of that framework in line with the requirements of ISA 210. In the public sector, however, the financial reporting framework may be prescribed by law or regulation. Paragraph A6 of the ISA explains that, where law or regulation prescribes the financial reporting framework to be used by management in the preparation of special purpose financial statements, such a framework is presumed to be acceptable in the absence of indications to the contrary.

**Forming an Opinion and Reporting Considerations**

P8. Paragraph 11 of the ISA requires the auditor to apply the requirements of ISA 700 when forming an opinion. In the public sector, legislation governing the audit mandate may specify the layout of, or wording to be used in, the auditor’s report. When public sector auditors prepare the auditor’s report using the layout or wording specified in such legislation, the auditor’s report can refer to the audit being conducted in accordance with ISAs, and the legislation governing the audit mandate, only if the auditor’s report includes, at a minimum, each of the elements specified in paragraph 49 (a)-(n) of ISA 700.

P9. Legislation or audit mandate in public sector may require the auditor’s report on special purpose financial statements to address other reporting responsibilities in addition to the auditor’s responsibilities under the ISAs. If the case, the auditor’s report shall describe such requirements of any relevant legislation or the audit mandate. Such a description is included in a separate section of the auditor’s report. If relevant legislation or the audit mandate specifies the format for, or wording to be used in this section, public sector auditors use the prescribed wording. In these cases, ISA700 42-44 on "other reporting responsibilities" applies.

P10. When management has a choice of financial reporting frameworks, paragraph 13(b) of the ISA requires that the reference to the applicable financial reporting framework in the statement of management’s responsibility for the special purpose financial statements be expanded to include the responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances of the engagement. As discussed in paragraph P7 above, it is unlikely that, in the public sector, management has such a choice. In any event, public sector auditors determine whether to expand the statement of management’s responsibility for the special purpose financial statements to refer to the source that determines the financial reporting framework applied.

P11. Paragraph 14 of the ISA requires the auditor’s report to include an Emphasis of Matter paragraph alerting users of the auditor’s report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. Paragraph A21 of the ISA explains that the auditor may also consider including a statement in the auditor’s report that it is intended solely for the specific users and that depending on law or regulation this may be achieved by restricting the distribution or use of the auditor’s report. In the public sector this may not be an option as the auditor’s report is ordinarily a public document. However, to avoid misleading users of the auditor’s report, public sector auditors include in their report the statement that the financial statements have been prepared in accordance with a special purpose framework.

P12. Key audit matters in an ISSAI 1800 context are mandatory only when required by laws or regulations. The public sector financial auditor should nevertheless consider whether reporting of key audit matters could be appropriate. ISSAI 1701 applies in these cases.