

Restricted Use

Background

The Exposure Draft provided for assurance reports, the use of which are restricted to the intended users of the report, certain modifications to the independence requirements may be made with the explicit agreement of the intended users. The Exposure Draft stated:

“For the purpose of this section, a restricted use audit report is a report that is expressly restricted for use by only the intended users specified in the report (as discussed in the International Framework for Assurance Engagements issued by the International Auditing and Assurance Standards Board). In the case of an engagement to issue such a report, certain modifications to the requirements of Section 290 are permitted as long as the intended users of the report (1) are knowledgeable as to the purpose, subject matter information and limitations of the report, and (2) explicitly agree the application of the modified independence requirements..” [290.500]

The modifications were acceptable because of the user’s direct or indirect participation as explained further in paragraph 290.500:

“...Knowledge as to the purpose, subject matter information and limitations of the report may be obtained by the intended users through their participation either directly, or indirectly through their representative who has the authority to act for the intended users, in establishing the nature and scope of the firm’s instructions to deliver the services. Such participation enhances the ability of the firm to communicate with intended users about independence matters, including the circumstances that are relevant to the evaluation of the threats to independence and the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level, to enable agreement with the modified independence requirements that are to be applied”.

The ED also stated that:

Modifications to the requirements of Section 290 should not, however, be made for the following audit engagements:

- (a) An audit of a complete set of general purpose financial statements;
[290.502]

Several respondents commented that the linkage between the Code and the ISA was not as clear as it could be. It was also noted consideration should be given to *ISA 800 Special Considerations – Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.

Discussion

The Task Force has reviewed proposed *ISA 700 The Independent Auditor's Report on General Purpose Financial Statements* and proposed *ISA 800 - Special Considerations – Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*. The following definitions and guidance are found in these documents:

- (a) General purpose financial statements – Financial statements prepared in accordance with a general purpose framework.
- (b) General purpose framework – A financial reporting framework designed to meet the common financial information needs of a wide range of users. [ISA 700.06]

The IAASB therefore defines general purpose according to the framework under which the financial statements have been prepared as opposed to the purpose of the use of the financial statements.

Restriction of use and distribution is dealt with in ISA 800 - under this ISA special purpose financial statements are defined as:

- (a) Special purpose financial statements – Financial statements prepared in accordance with a special purpose framework.
- (b) Special purpose framework – A financial reporting framework designed to meet the financial information needs of specific users.

Examples of special purpose frameworks are:

- A tax basis of accounting for a set of financial statements that accompany an entity's tax return;
- The cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors;
- The financial reporting provisions established by a regulator to meet that regulator's requirements; or
- The financial reporting provisions of a contract, such as a bond indenture or a loan agreement.

ISA 800 provides that:

The auditor's report on the special purpose financial statements shall include a statement that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements and related auditor's report may not be suitable for another purpose. The statement shall be

included in a separate paragraph following the auditor's opinion and under the heading Other Matter – Restriction on Use

The application guidance provides the following with respect to this matter:

The special purpose financial statements and related auditor's report may be used for purposes other than those for which they were intended. For example, a regulator may require certain entities to place the special purpose financial statements and related auditor's report on public record. To avoid misunderstandings, the auditor alerts users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose. [ISA 800. A13]

The auditor may also consider including a statement in the auditor's report that it is intended solely for the intended users, and should not be distributed to or used by other parties. Where this is the case, the heading referred to in paragraph 14 would read Other Matter – Restriction on Use and Distribution. [ISA 800.A14]

The audit report example disclosure is shown as follows in ISA 800:

The financial statement is 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 and related auditor's report 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.]*

Task Force Recommendation

The Task Force recommends that paragraphs 290.500 onwards (and the corresponding paragraphs in 291) be amended to refer to special purpose reports that include a restriction on use and distribution. The Task Force is of the view that this appropriately aligns the Code to the ISAs

Action requested

IESBA Members are asked to consider the above matters and provide direction to the Task Force.