

# Specialised Areas

## Chapter Overview



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## Special Considerations - Audits of Financial Statements Prepared In Accordance with "Special Purpose Frameworks"

### Scope of this SA

**SA 800** deals with special considerations applicable in respect of audit of financial statements prepared in accordance with **special purpose framework**.

SA 800 addresses **special considerations** that are relevant to: -

- a) The **acceptance** of the engagement
- b) The **planning and performance** of that engagement and
- c) **Forming an opinion and reporting** on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

### What is Special Purpose framework?

- 1) SA 800 defines **special purpose framework** as a financial reporting framework **designed** to meet the financial information needs of specific users.
- 2) The financial reporting framework may be a **fair presentation framework or a compliance framework**.
- 3) The requirements of the applicable financial reporting framework determine the form and content of the financial statements and what constitutes a complete set of financial statements.

### Examples of Special purpose frameworks are

- 1) The **cash receipts and disbursements basis of accounting** for cash flow information that an entity may be requested to prepare **for creditors**.
- 2) The **financial reporting provisions established by a regulator** to meet the requirements of that regulator.
- 3) The **financial reporting provisions of a contract**, such as a bond indenture, a loan agreement, or a project grant

### Difference between Special purpose framework & General purpose framework

A financial reporting framework designed to meet the common financial information **needs of a wide range of users** is known as "**General purpose framework**" whereas a financial reporting framework designed to meet the financial information **needs of specific users** is known as "**Special purpose framework**."

### Considerations When Accepting Such Engagement

- 1) In the case of special purpose financial statements, the financial information needs of the intended users are a **key factor** in **determining the acceptability** of the financial reporting

framework applied in the preparation of the financial statements.

- 2) The applicable financial reporting framework may encompass the financial reporting standards established by an organisation that is authorised or recognised to **promulgate** standards for special purpose financial statements.
- 3) In that case, those standards will be **presumed acceptable** for that purpose if the organisation **follows** an established and transparent process involving **deliberation and consideration** of the views of relevant stakeholders.
- 4) Some laws or regulations may prescribe the financial reporting framework to be used by management in the preparation of special purpose financial statements for a certain type of entity.

5) **For Example**

A regulator may establish financial reporting provisions to meet the requirements of that regulator. In the absence of indications to the contrary, such a financial reporting framework is presumed acceptable for special purpose financial statements prepared by such an entity.

- 6) Where the financial reporting standards referred to above are **supplemented by legislative or regulatory** requirements, **SA 210** requires the auditor to **determine** whether any **conflicts** between the financial reporting standards and the additional requirements exist and prescribes actions to be taken by the auditor if such conflicts exist.
- 7) The applicable financial reporting framework may **encompass** the financial reporting **provisions of a contract or sources** other than those described in the preceding paras. In that case, the **acceptability** of the financial reporting framework in the circumstances of the engagement is **determined** by considering whether the framework **exhibits attributes** normally exhibited by acceptable financial reporting frameworks in accordance with the requirements of **SA 210**.
- 8) In the case of a **special purpose framework**, the relative importance to a particular engagement of each of the attributes normally exhibited by **acceptable financial reporting frameworks** is a matter of **professional judgment**.

9) **For Example**

For purposes of establishing the value of net assets of an entity at the date of its sale, the vendor and the purchaser may have agreed that very prudent estimates of allowances for uncollectible accounts receivable are appropriate for their needs, even though such financial information is not neutral when compared with financial information prepared in accordance with a general purpose framework.

### Considerations When Planning and Performing Such Audit

- 1) SA 200 requires the auditor to comply with
  - a) **relevant ethical requirements**, including those pertaining to independence, relating to financial statement audit engagements, and
  - b) **all SAs** relevant to the audit.
- 2) It also requires the auditor to comply with each requirement of an SA unless, in the

circumstances of the audit, the entire SA is not relevant or the requirement is not relevant because it is conditional and the condition does not exist.

- 3) In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an SA by performing alternative audit procedures to achieve the aim of that requirement.
- 4) Application of some of the requirements of the SAs in an audit of special purpose financial statements may require special consideration by the auditor.
- 5) **For Example**  
In SA 320, judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. In the case of an audit of special purpose financial statements, however, those judgments are based on a consideration of the financial information needs of the intended users.
- 6) In the case of **special purpose financial statements**, such as those prepared in accordance with the requirements of a contract, **management** may **agree** with the **intended users** on a **threshold** below which **misstatements** identified during the audit will **not be corrected** or **otherwise adjusted**.
- 7) The **existence** of such a threshold does **not** relieve the **auditor** from the **requirement to determine materiality** in accordance with **SA 320** for purposes of **planning and performing the audit of the special purpose financial statements**.
- 8) **SA 260** requires the auditor **to determine the appropriate person(s)** within the entity's governance structure with whom to communicate.
- 9) **SA 260** (Revised) notes that, in some cases, all of those charged governance are involved in managing the entity, and the application of the communication requirements is modified to recognize this position.
- 10) When a complete set of general purpose financial statements is also prepared by the entity, those person(s) responsible for the oversight of the preparation of the special purpose financial statements may not be the same as those charged with governance responsible for the oversight of the preparation of those general purpose financial statements.
- 11) **Forming an opinion and reporting considerations in such an audit** : When forming an opinion and reporting on special purpose financial statements, the auditor shall apply the requirements in **Revised SA 700**.

### Description of the Applicable Financial Reporting Framework

- 1) **Revised SA 700** (Revised) requires the **auditor** to **evaluate** whether the financial statements **adequately** refer to or describe the **applicable financial reporting framework**. In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall **evaluate** whether the financial statements **adequately** describe any **significant interpretations** of the contract on which the financial statements are based.
- 2) **Revised SA 700** deals with the **form and content** of the auditor's report. In the case of an auditor's report on special purpose financial statements: -
  - a) The **auditor's report** shall also describe the **purpose** for which the financial statements

are **prepared** and, if necessary, the intended users, or refer to a note in the special purpose financial statements that contain that information; and

- b) If management has a choice of financial reporting frameworks in the preparation of such financial statements, the **explanation of management's responsibility** for the financial statements shall also make **reference** to its **responsibility** for determining that the **applicable financial reporting framework** is **acceptable** in the circumstances.

### Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework

- 1) The special purpose financial statements 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 on public record.

- 2) 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.

### Restriction on Distribution or Use

- 1) In addition to the alert required as discussed above, the auditor may consider it appropriate to indicate that the auditor's report is intended solely for the specific users.
- 2) Depending on the law or regulation applicable, this may be achieved by restricting the distribution or use of the auditor's report.
- 3) In these circumstances, the paragraph alerting the readers may be expanded to include these other matters, and the heading modified accordingly



## Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

### Scope

- 1) **SA 805** deals with special considerations in the **application** of those SAs to an **audit** of a **single financial statement** or of a **specific element, account** or **item** of a **financial statement**.
- 2) The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with a general or special purpose framework. **If prepared** in accordance with a special purpose framework, **SA 800 also applies** to the audit.
- 3) **SA 805** does **not apply** to the **report of a component auditor** issued as a result of work performed on the financial information of a component at the request of a group engagement team for purposes of an audit of group financial statements.

### Objectives

The objective of the auditor, when applying SAs, in such an audit, is **to address appropriately** the special considerations that are relevant to the acceptance of engagement, planning and performance of engagement and forming an opinion and reporting but **not** for the purpose of **expressing an opinion** on the **effectiveness** of the **entity's internal control**.

### What is a Single Financial Statement?

A **single financial statement** is to be distinguished from a complete set of financial statements. For example, a cash flow statement is a single financial statement.

### What is the Element of a Financial Statement?

- 1) "Element of a financial statement" or "element" means an "element, account or item of a financial statement." **For example**, trade receivables or cash and bank balances
- 2) A single financial statement or a specific element of a financial statement **includes** the related notes ordinarily **comprising a summary of significant accounting policies** and **other explanatory information** relevant to the financial statement or to the element.

### Considerations When Accepting Such Engagement

#### Application of SA's

- 1) **SA 200** requires the auditor to **comply with all SAs relevant** to the audit. In the case of an audit of a single financial statement or of a specific element of a financial statement, this requirement applies **irrespective** of whether the auditor is also **engaged to audit** the entity's complete set of financial statements.
- 2) If the auditor is **not** also engaged to audit the entity's complete set of financial statements,

the auditor shall **determine** whether the audit of a single financial statement or of a specific element of those financial statements in accordance with SAs is **practicable**.

- 3) **SA 200** requires the auditor **to comply** with
  - a) **relevant ethical requirements**, including those pertaining to independence relating to financial statement audit engagements, and
  - b) all SAs relevant to the audit. It also requires the auditor to comply with each requirement of an SA unless, in the **circumstances** of the audit, the entire **SA is not relevant** or the requirement is not relevant because it is conditional and the condition does not exist.
- 4) In **exceptional circumstances**, the auditor may judge it necessary **to depart** from a relevant requirement in an SA by performing alternative audit procedures to achieve the aim of that requirement.
- 5) Compliance with the requirements of SAs relevant to the audit of a single financial statement or of a specific element of a financial statement **may not be practicable** when the auditor is not also engaged to audit the entity's complete set of financial statements.
- 6) In such cases, the auditor often does **not** have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of financial statements.
- 7) The auditor also does **not** have audit evidence about the general quality of the accounting records or other accounting information that would be acquired in an audit of the entity's complete set of financial statements.
- 8) Accordingly, the auditor may need further evidence **to corroborate** audit evidence acquired from the accounting records. In the case of an audit of a specific element of a financial statement, certain SAs require audit work that may be disproportionate to the element being audited.
- 9) **Example**- although the requirements of **SA 570** are likely to be relevant in the circumstances of an audit of a schedule of accounts receivable, complying with those requirements may not be practicable because of the audit effort required.
- 10) If the auditor **concludes** that an audit of a single financial statement or of a specific element of a financial statement in accordance with SAs may not be practicable, the **auditor** may **discuss with management** whether another type of engagement might be more practicable

### Acceptability of the Financial Reporting Framework

- 1) **SA 210** requires the auditor **to determine** the **acceptability** of the financial reporting framework applied in the preparation of the financial statements.
- 2) In the case of an audit of a single financial statement or of a specific element of a financial statement, this shall **include** whether **application of the financial reporting framework** will result in a **presentation** that provides **adequate disclosures** to **enable** the intended users **to understand the information** conveyed in the financial statement or the element, and the **effect of material transactions** and **events** on the information conveyed in the financial statement or the element.



- 3) A **single financial statement** or a **specific element** of a financial statement may be **prepared** in accordance with an **applicable financial reporting framework** that is based on a financial reporting framework established by an authorised or recognised standards setting organisation for the preparation of a complete set of financial statements.
- 4) If this is the case, determination of the acceptability of the applicable framework may **involve** considering whether that framework **includes** all the requirements of the framework on which it is based that are relevant to the presentation of a single financial statement or of a specific element of a financial statement that provides adequate disclosures.

### Considerations When planning and performing the Audit

- 1) In **planning and performing** the audit of a single financial statement or of a specific element of a financial statement, the auditor shall **adapt all SAs relevant** to the audit as necessary in the circumstances of the engagement.
- 2) When **auditing** a single financial statement or a specific element of a financial statement **in conjunction** with the audit of the entity's complete set of financial statements, the auditor may be able to use audit evidence obtained as part of the audit of the entity's complete set of financial statements in the audit of the financial statement or the element.
- 3) SAs, however, require the auditor to **plan and perform** the audit of the financial statement or element to obtain **sufficient appropriate audit evidence** on which to **base the opinion** on the financial statement or on the element.
- 4) The individual financial statements that **comprise** a complete set of financial statements, and many of the elements of those financial statements, including their related notes, are interrelated.
- 5) Accordingly, when auditing a single financial statement or a specific element of a financial statement, the auditor may **not be able** to consider the financial statement or the element in isolation. Consequently, the auditor may **need to perform** procedures in relation to the interrelated items **to meet** the objective of the audit.
- 6) Furthermore, the materiality determined for a single financial statement or for a specific element of a financial statement may be **lower than the materiality** determined for the entity's complete set of financial statements; this will **affect the nature, timing and extent** of the audit procedures and the **evaluation of uncorrected misstatements**.

### Form of Opinion

- 1) **SA 210** requires that the agreed terms of the audit engagement **include** the expected form of any reports to be issued by the auditor. In the case of an audit of a single financial statement or of a specific element of a financial statement, the auditor shall **consider** whether the **expected form of opinion** is **appropriate** in the circumstances.
- 2) The form of opinion to be expressed by the auditor depends on the applicable financial reporting framework and any applicable laws or regulations. In accordance with Revised SA 700:
  - a) When expressing an **unmodified opinion** on a complete set of financial statements

prepared in accordance with a **fair presentation framework**, the auditor's opinion, unless otherwise required by law or regulation, uses one of the following phrases:

- (i) the financial statements **present fairly**, in all material respects, in accordance with the applicable financial reporting framework **or**
  - (ii) the financial statements **give a true and fair view** in accordance with the applicable financial reporting framework and
- b) When expressing an **unmodified opinion** on a complete set of financial statements prepared in accordance with a **compliance framework**, the auditor's opinion states that the **financial statements are prepared**, in all material respects, in accordance with the applicable financial reporting framework.
- 3) In the case of a **single financial statement** or of a **specific element** of a financial statement, the applicable financial reporting framework may **not** explicitly address the presentation of the financial statement or of the element. This may be the case when the applicable financial reporting framework is based on a financial reporting framework established by an **authorised or recognised standards** setting organisation for the preparation of a complete set of financial statements. The auditor therefore considers whether the expected form of opinion is appropriate in the light of the applicable financial reporting framework.
- 4) Factors that may affect the auditor's consideration as to whether to use the phrases "presents fairly, in all material respects", or "gives a true and fair view" in the auditor's opinion include:
- a) Whether the applicable financial reporting framework is **explicitly or implicitly** restricted to the preparation of a complete set of financial statements.
  - b) Whether the single financial statement or the specific element of a financial statement will:
    - i) **Comply fully** with each of those requirements of the framework relevant to the particular financial statement or the particular element, and the **presentation** of the financial statement or the specific element of a financial statement include the related notes and disclosures
    - ii) If necessary **to achieve fair presentation**, provide disclosures beyond those specifically required by the framework or, in exceptional circumstances, depart from a requirement of the framework.
- 5) The **auditor's decision** as to the expected form of opinion is a matter of **professional judgment**. It may be affected by whether use of the phrases "**presents fairly**, in all material respects", or "**gives a true and fair view**" in the auditor's opinion on a single financial statement or on a specific element of a financial statement prepared in accordance with a fair presentation framework is **generally accepted** in the particular jurisdiction.

### Forming an Opinion and Reporting Considerations

- 1) When **forming an opinion** and **reporting** on a single financial statement or on a specific element of a financial statement, the **auditor** shall **apply** the requirements in **Revised SA 700**, adapted as necessary in the circumstances of the engagement.
- 2) If the auditor undertakes an engagement **to report** on a single financial statement or on a

specific element of a financial statement **in conjunction** with an engagement to audit the entity's complete set of financial statements, the auditor shall **express a separate opinion** for each engagement.

- 3) An **audited** single financial statement or an audited specific element of a financial statement may be **published together** with the entity's audited complete set of financial statements.
- 4) If the auditor **concludes** that the presentation of a single financial statement or of the specific element of a financial statement **does not** differentiate it sufficiently from the complete set of financial statements, the auditor shall **ask management to rectify** the situation.
- 5) The **auditor** shall also **differentiate the opinion** on the single financial statement or on the specific element of a financial statement from the opinion on the complete set of financial statements.
- 6) The **auditor** shall **not** issue the auditor's report containing the opinion on the single financial statement or on the specific element of a financial statement **until satisfied** with the **differentiation**.

### Opinion As per SA 700

- 1) If the opinion in the auditor's report on an entity's complete set of financial statements is **modified**, or that report includes an **Emphasis of matter paragraph** or **other matter paragraph**, the auditor shall **determine the effect** that this may have on the **auditor's report** on a single financial statement or on a specific element of those financial statements.
- 2) When **deemed appropriate**, the auditor shall **modify the opinion** on the single financial statement or on the specific element of a financial statement, or include an **Emphasis of matter paragraph** or other matter paragraph in the auditor's report, accordingly.
- 3) If the auditor **concludes** that it is necessary **to express an adverse opinion** or **disclaim an opinion** on the entity's complete set of financial statements as a whole, Revised SA 705 **does not** permit the auditor to include in the same auditor's report an unmodified opinion on a single financial statement that forms part of those financial statements or on a specific element that forms part of those financial statements. This is because such an **unmodified opinion** would **contradict** the **adverse opinion or disclaimer of opinion** on the entity's complete set of financial statements as a whole.
- 4) If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole but, in the context of a separate audit of a specific element that is included in those financial statements, the auditor nevertheless considers it appropriate to express an unmodified opinion on that element, the auditor shall only do so if:
  - a) The auditor is **not prohibited** by law or regulation from doing so;
  - b) That **opinion is expressed** in an auditor's report that is **not published together** with the auditor's report containing the adverse opinion or disclaimer of opinion; and
  - c) The specific element does **not constitute** a major portion of the entity's complete set of financial statements.

## How opinion expressed on Complete Set of Financial Statements Impacts Opinion on Single Financial Statements

- 1) The auditor shall **not express an unmodified opinion** on a single financial statement of a complete set of financial statements if the auditor has **expressed an adverse opinion or disclaimed an opinion** on the **complete set** of financial statements as a whole.
- 2) This is the case even if the auditor's report on the single financial statement is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion. This is because a single financial statement is deemed to constitute a major portion of those financial statements.
- 3) **Revised SA 700** requires the auditor, in forming an opinion, **to evaluate** whether the financial statements **provide adequate disclosures** to enable the intended users to **understand** the effect of material transactions and events on the information conveyed in the financial statements.
- 4) In the case of a single financial statement or of a specific element of a financial statement, it is important that the financial statement or the element, including the related notes, in view of the requirements of the applicable financial reporting framework, provides **adequate disclosures** to enable the **intended users to understand** the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element.
- 5) Even when the modified opinion on the entity's complete set of financial statements, Emphasis of matter paragraph or Other matter paragraph does **not** relate to the audited financial statement or the audited element, the **auditor** may still **deem it appropriate** to **refer to the modification** in an **Other matter paragraph** in an auditor's report on the financial statement or on the element because the auditor judges it to be relevant to the users' understanding of the audited financial statement or the audited element or the related auditor's report.
- 6) In the auditor's report on an entity's complete set of financial statements, the expression of a disclaimer of opinion regarding the results of operations and cash flows, where relevant, and an unmodified opinion regarding the state of affairs is permitted since the disclaimer of opinion is being issued in respect of the results of operations and cash flows only and not in respect of the financial statements as a whole.

### Examples of Specific Elements, Accounts or Items of a Financial Statement are:

- 1) Accounts receivable, allowance for doubtful accounts receivable, inventory, the liability for accrued benefits of a private pension plan, the recorded value of identified intangible assets, or the liability for **"incurred but not reported"** claims in an insurance portfolio, including related notes.
- 2) A schedule of **externally managed assets** and income of a private pension plan, including related notes.

- 3) A schedule of **net tangible assets**, including related notes.
- 4) A schedule of **disbursements** in relation to a lease property, including explanatory notes.

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# Engagements to Report on Summary Financial Statements

## Scope

**SA 810** deals with the auditor's responsibilities when undertaking an engagement to report on summary financial statements derived from financial statements audited in accordance with SAs by that same auditor.

## What do Summary Financial Statements Reflect?

Summary financial statements **reflect historical financial information** that is **derived** from financial statements, but that contains **less detail** than the financial statements while still providing a **structured representation** consistent with that provided by the financial statements of the entity's economic resources or obligations at a point in time or the changes therein for a period of time.

## Engagement Acceptance

- 1) The **auditor** shall, ordinarily, **accept** an engagement to report on summary financial statements in accordance with this SA **only** when the **auditor** has been **engaged to conduct** an audit in accordance with SAs of the financial statements from which the **summary financial statements** are **derived**.
- 2) If the auditor has **not** also audited the financial statements from which the summary financial statements are derived, **the auditor** shall **not** have the **necessary knowledge to discharge** his **responsibilities** in relation to the summary financial statements in accordance with this SA.

## Before accepting an engagement to report on summary financial statements, the auditor shall:

### a) Determine whether the applied criteria are acceptable

- 1) **Applied criteria**
  - a) It refer to the criteria **applied by management** in the preparation of the summary financial statements.
  - b) Management is responsible for the determination of the information that needs to be reflected in the summary financial statements so that they are consistent, in all material respects, with or represent a fair summary of the audited financial statements.
  - c) Because summary financial statements, by their **nature** contain **aggregated information** and **limited disclosure**, there is an **increased risk** that they may not contain the information necessary so as not to be misleading in the circumstances.
  - d) This **risk increases** when **established criteria** for the preparation of summary



financial statements **do not exist**.

- 2) **Factors affecting** the auditor's determination of the acceptability of the applied criteria:
  - a) The **nature** of the entity
  - b) The **purpose** of the summary financial statements
  - c) The **information needs** of the intended users of the summary financial statements and
  - d) Whether the **applied criteria** will result in summary financial statements that are **not** misleading in the circumstances.
- 3) The **criteria** for the preparation of summary financial statements may be **established** by an authorised or recognised standards setting organisation or by law or regulation. Similar to the case of financial statements, as explained in SA 210, in many such cases, the auditor may presume that such criteria are acceptable.
- 4) Where **established criteria** for the preparation of summary financial statements **do not exist**, criteria may be developed by management, for example, based on practice in a particular industry.
- 5) If the auditor **concludes** that the applied criteria are **unacceptable or is unable** to obtain the agreement of management as discussed above, the auditor shall **not accept** the engagement to report on the summary financial statements, **unless required by law or regulation** to do so.
- 6) An **engagement** conducted in accordance with such law or regulation **does not comply** with this SA. Accordingly, the auditor's report on the summary financial statements shall not indicate that the engagement was conducted in accordance with this SA.
- 7) The auditor shall include **appropriate reference** to this fact in the terms of the engagement. The auditor shall also determine the effect that this may have on the engagement to audit the financial statements from which the summary financial statements are derived.
- 8) **Adequate disclosure** of the summarised nature of the summary financial statements and the **identity** of the audited financial statements, may, for example, be provided by a title such as **"Summary financial statements prepared from the audited financial statements for the year ended March 31, 20XX"**

b) Obtain the agreement of management that it acknowledges and understands its responsibility:

- 1) For the **preparation of the summary financial statements** in accordance with the applied criteria.
- 2) **To make the audited financial statements available** to the **intended users** of the summary financial statements without undue difficulty (or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements, to describe that law or regulation in the summary financial statements)
- 3) The auditor's evaluation whether the audited financial statements are available to the

intended users of the summary financial statements without undue difficulty is affected by factors such as whether:

- a) The summary financial statements describe clearly from whom or where the audited financial statements are available
  - b) The audited financial statements are on public record; or
  - c) Management has established a process by which the intended users of the summary financial statements can obtain ready access to the audited financial statements
- 4) To include the auditor's report on the summary financial statements in any document that contains the summary financial statements and that indicates that the auditor has reported on them

c) Agree with management on the form of opinion to be expressed on the summary financial statements.

### Nature of Procedures to be Performed by Auditor

The auditor shall perform the following procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements:

- 1) **Evaluate** whether the summary financial statements **adequately disclose** their summarised nature and identify the audited financial statements.
- 2) When summary financial statements are **not accompanied** by the audited financial statements, **evaluate** whether they **describe clearly**:
  - a) From **whom or where** the audited financial statements are available; or
  - b) The law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements.
- 3) **Evaluate** whether the summary financial statements **adequately disclose** the **applied criteria**.
- 4) **Compare** the summary financial statements with the related information in the audited financial statements **to determine** whether the summary financial statements agree with or can be re-calculated from the related information in the audited financial statements.
- 5) **Evaluate** whether the summary financial statements are **prepared** in accordance with the **applied criteria**.
- 6) **Evaluate**, in view of the purpose of the summary financial statements, whether the summary financial statements **contain** the information necessary, and are at an **appropriate level of aggregation**, so as not to be misleading in the circumstances.
- 7) Evaluate whether the **audited financial statements** are available to the **intended users** of the summary financial statements without **undue difficulty**, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements as discussed already.



## Form of Opinion

- 1) When the auditor has concluded that an unmodified opinion on the summary financial statements is appropriate, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases:
  - a) The summary financial statements are **consistent**, in all material respects, with the audited financial statements, in accordance with the applied criteria or
  - b) The summary financial statements are a **fair summary** of the audited financial statements, in accordance with the applied criteria
- 2) If law or regulation prescribes the wording of the opinion on summary financial statements in terms that are different from those described above, the auditor shall:
  - a) **Apply the procedures** discussed earlier and any further procedures necessary to enable the auditor **to express the prescribed opinion** and
  - b) **Evaluate** whether users of the summary financial statements might misunderstand the auditor's opinion on the summary financial statements and, **if so**, whether **additional explanation** in the auditor's report on the summary financial statements can **mitigate possible misunderstanding**.
- 3) If, the auditor **concludes** that additional explanation in the auditor's report on the summary financial statements **cannot mitigate** possible misunderstanding, the auditor shall **not accept** the engagement, **unless required by law or regulation** to do so.
- 4) An engagement conducted in accordance with such law or regulation does **not comply** with this SA. Accordingly, the auditor's report on the summary financial statements shall **not indicate** that the engagement was conducted in accordance with this SA.

## Auditor's Report on Summary Financial Statements

### Elements of the Auditor's Report :

The auditor's report on summary financial statements shall include the following elements: -

- 1) **A title** clearly indicating it as the report of an independent auditor
- 2) **An addressee:** If the addressee of the summary financial statements is not the same as the addressee of the auditor's report on the audited financial statements, the auditor shall evaluate the appropriateness of using a different addressee. Factors that may affect the auditor's evaluation of the appropriateness of the addressee of the summary financial statements include the terms of the engagement, the nature of the entity, and the purpose of the summary financial statements.
- 3) **An introductory paragraph:**
  - a) **Identifies** the summary financial statements on which the auditor is reporting, including the title of each statement included in the summary financial statements. When the auditor is aware that the summary financial statements 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 summary financial statements are presented. This helps readers to identify the summary financial

statements to which the auditor's report relates.

- b) Identifies the audited financial statements
  - c) **Refers to the auditor's report** on the audited financial statements, the date of that report, and, in cases other than where audited financial statements contain modified opinion, emphasis of matter paragraph and other matter paragraph, the fact that an unmodified opinion is expressed on the audited financial statements;
  - d) If the date of the auditor's report on the summary financial statements is **later than the date of the auditor's report** on the audited financial statements, states that the summary financial statements and the audited financial statements **do not reflect the effects of events** that **occurred subsequent** to the **date of the auditor's report** on the audited financial statements; and
  - e) **A statement** indicating that the summary financial statements **do not** contain all the disclosures required by the **financial reporting framework applied** in the preparation of the audited financial statements, and that reading the summary financial statements is not a substitute for reading the audited financial statements
- 4) **A description of management's responsibility** for the summary financial statements, explaining that management is responsible for the preparation of the summary financial statements in accordance with the applied criteria.
  - 5) **A statement** that the auditor is responsible for expressing an opinion on the summary financial statements based on the procedures required by this SA.
  - 6) **A paragraph** clearly expressing an opinion.
  - 7) **The auditor's signature along with the firm registration number**, wherever applicable, and the membership number assigned by the Institute of Chartered Accountants of India. Besides, UDIN is required to be stated.
  - 8) **The date of the auditor's report-** The auditor shall date the auditor's report on the summary financial statements no earlier than:
    - a) The date on which the auditor has obtained sufficient appropriate evidence on which to base the opinion, including evidence that the summary financial statements have been prepared and those with the recognised authority have asserted that they have taken responsibility for them; and
    - b) The date of the auditor's report on the audited financial statements.
  - 9) **The place of signature.**

## Modifications to the Opinion, Emphasis of Matter Paragraph or Other Matter Paragraph in the Auditor's Report on the Audited Financial Statements

- 1) When the auditor's report on the audited financial statements contains a qualified opinion, an Emphasis of Matter paragraph, or an Other Matter paragraph, but the auditor is satisfied that the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria, the auditor's report on the summary financial statements shall, also contain followings: -
  - a) **State** that the auditor's report on the audited financial statements contains a **qualified opinion**, an **Emphasis of Matter paragraph**, or an **Other Matter paragraph**; and
  - b) **Describe**:
    - (i) The **basis for the qualified opinion** on the audited financial statements, and that qualified opinion; or the Emphasis of Matter or the Other Matter paragraph in the auditor's report on the audited financial statements; and
    - (ii) The **effect** thereof on the summary financial statements, if any
  
- 2) When the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor's report on the summary financial statements shall, additionally: -
  - a) **State** that the auditor's report on the audited financial statements contains an **adverse opinion or disclaimer of opinion**;
  - b) **Describe** the **basis for that adverse opinion or disclaimer of opinion**; and
  - c) **State** that, as a result of the adverse opinion or disclaimer of opinion, it is **inappropriate to express an opinion** on the summary financial statements
  
- 3) **Modified Opinion on the Summary Financial Statements**  
 If the summary financial statements are **not consistent**, in all material respects, with or are not a fair summary of the audited financial statements, in accordance with the applied criteria, and **management does not agree** to make the **necessary changes**, the **auditor** shall **express an adverse opinion** on the summary financial statements.

## Restriction on Distribution or Use or Alerting Readers to the Basis of Accounting

When **distribution or use** of the auditor's report on the audited financial statements is **restricted**, or the **auditor's report** on the audited financial statements **alerts readers** that the audited financial statements are **prepared** in accordance with a **special purpose framework**, the auditor shall include a **similar restriction** or **alert** in the auditor's report on the summary financial statements.

### Comparatives

- 1) Comparatives in the audited financial statements may be regarded as **corresponding figures** or as **comparative financial information**.
- 2) If the audited financial statements contain comparatives, but the summary financial statements do not, the auditor shall determine whether such omission is reasonable in the circumstances of the engagement.
- 3) The auditor shall determine the **effect of an unreasonable omission** on the auditor's report on the summary financial statements.
- 4) If the summary financial statements contain comparatives that were reported on by another auditor, the auditor's report on the summary financial statements shall also contain the matters that **SA 710** requires the auditor to include in the auditor's report on the audited financial statements.

### Unaudited Supplementary Information Presented With Summary Financial Statements

- 1) The auditor shall **evaluate** whether any **unaudited supplementary information** presented with the summary financial statements is clearly differentiated from the summary financial statements.
- 2) If the auditor **concludes** that the entity's presentation of the unaudited supplementary information is **not clearly differentiated** from the summary financial statements, the auditor shall **ask management to change** the presentation of the unaudited supplementary information.
- 3) **If management refuses** to do so, the **auditor** shall **explain** in the auditor's report on the summary financial statements that such information is **not covered** by that report.

### Other Information in Documents Containing Summary Financial Statements

- 1) The auditor shall **read the other information** included in a document containing the summary financial statements and related auditor's reports to consider whether there is a **material inconsistency** between the other information and the summary financial statements.
- 2) If the auditor identifies a **material inconsistency**, the auditor shall determine whether the summary financial statements or the other information needs to be revised. If, the **auditor becomes aware** that the other information needs to be revised,
- 3) The auditor shall discuss the matter with management.

### Auditor Association

- 1) If the **auditor becomes aware** that the **entity plans** to state that the auditor has **reported** on summary financial statements in a document containing the summary financial statements, but **does not plan to include** the related auditor's report, the auditor shall **request management to include the auditor's report** in the document.

- 2) If **management** does **not do so**, the auditor shall **determine and carry** out other appropriate actions designed to prevent management from inappropriately associating the auditor with the summary financial statements in that document.
- 3) The auditor may be engaged to report on the financial statements of an entity, while not engaged to report on the summary financial statements. If, in this case, the auditor becomes aware that the entity plans to make a statement in a document that refers to the auditor and the fact that summary financial statements are derived from the financial statements audited by the auditor, the auditor shall be satisfied that:
  - a) **The reference** to the auditor is made in the context of the auditor's report on the audited financial statements; and
  - b) The statement **does not** give the impression that the auditor has reported on the summary financial statements.
- 4) If **a) or b)** are not met, the auditor shall **request management** to change the statement to meet them, or not to refer to the auditor in the document. Alternatively, the entity may engage the auditor to report on the summary financial statements and include the related auditor's report in the document.
- 5) If **management does not** change the statement, delete the reference to the auditor, or include an auditor's report on the summary financial statements in the document containing the summary financial statements, the auditor shall advise management that the auditor **disagrees** with the reference to the auditor, and the **auditor** shall **determine** and carry out other appropriate actions designed **to prevent** management from **inappropriately** referring to the auditor.

### Timing of Work and Events Subsequent to the Date of the Auditor's Report on the Audited Financial Statements

When the auditor reports on the summary financial statements after the completion of the audit of the financial statements, the auditor is not required to obtain additional audit evidence on the audited financial statements, or report on the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements since the summary financial statements are derived from the audited financial statements.

CA RISHABH JAIN

