



SA 800 - Special Considerations - Audits of F.S. prepared as per Special Purpose Frameworks (SPF)

Spl. purpose framework is a FRF designed to meet financial info. needs of specific users.

FRF may be a fair presentation framework or a compliance framework.

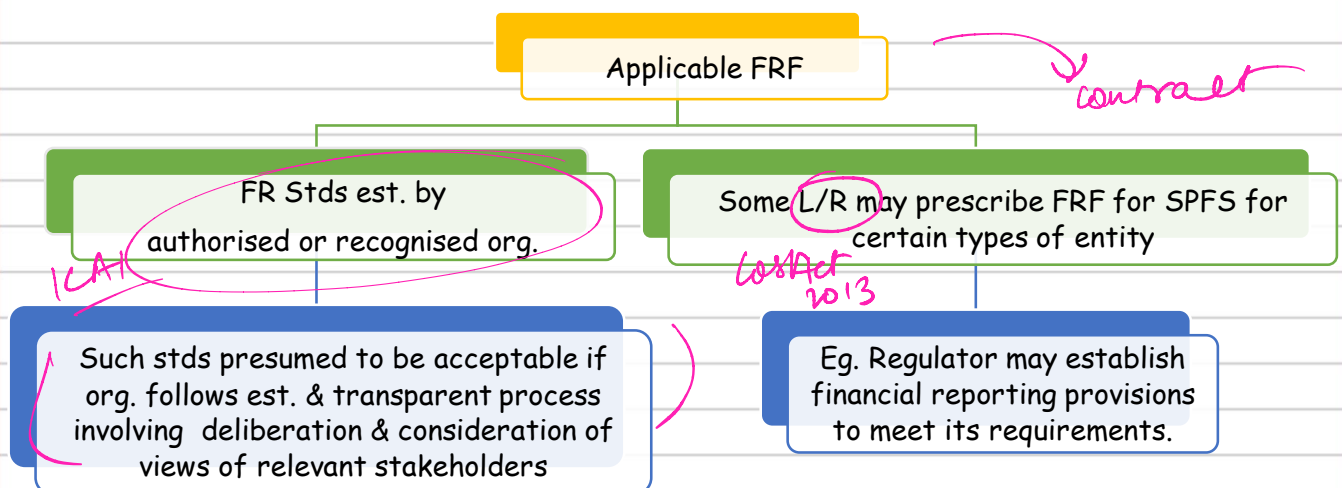
Examples of Special purpose frameworks are: -

- Cash receipts & disbursements basis of accounting for cash flow info. that entity may be requested to prepare for creditors.
- FR provisions established by regulator to meet requirements of that regulator.
- FR provisions of contract, eg. bond indenture, loan agreement, or project grant.

Considerations when Accepting such assignment

Main focus → Determining Acceptability of FRF

- In case of SPFS, financial info. needs of intended users are key factor in determining acceptability of FRF applied in preparation of F.S.



- Where financial reporting stds are supplemented by legislative or regulatory requirements.
- SA 210 requires auditor to determine whether any conflicts b/w financial reporting stds & additional requirements exist & prescribes actions by auditor if such conflicts exist.
- Applicable FRF may encompass financial reporting provisions of contract or sources other than those described in preceding paras.
- In that case, acceptability of FRF determined by considering whether framework exhibits attributes normally exhibited by acceptable FRFs as per SA 210.
- In case of SPF, relative importance of each of attributes to a particular engg. exhibited by acceptable FRFs is matter of professional judgment.
- For eg, for valuing net assets on date of sale, vendor & purchaser may agree on very prudent estimates of allowances for uncollectible a/c receivable, even though such financial info. isn't neutral compared with financial info. prepared as per a general purpose framework.



Considerations When Planning and Performing Such Audit

SA 200 requires auditor to comply with

- (a) relevant ethical requirements, including independence and
- (b) all SAs relevant to audit.

- Requires auditor to comply with each requirement of SA unless entire SA isn't relevant or requirement is not relevant.
- In exceptional circumstances, auditor may judge necessary to depart from relevant requirement in SA by performing alternative audit procedures.

Application of some SAs in audit of SPFS may require special consideration by auditor (Examples)

Materiality [SA 320]

- Judgments about matters material based on consideration of common financial info. needs of users.
- In audit of SPFS, those judgments based on consideration of financial info. needs of intended users.
- In case of SPFS, prepared as per contract, mgt may agree with intended users on a threshold below which misstatements identified will not be corrected or adjusted.
- Existence of such threshold doesn't relieve auditor from determining materiality as per SA 320 for planning & performing audit of SPFS.

Communication with TCWG [SA 260]

- SA 260 requires auditor to determine appropriate person(s) within entity's governance structure to communicate. In some cases, all of TCWG are involved in managing entity & application of communication requirements is modified to recognize this position.
- When complete set of GPFS is also prepared by entity, those person(s) responsible for oversight of preparation of SPFS may not be same as TCWG responsible for GPFS.

SA 700

- Forming opinion and reporting considerations in such audit: When forming opinion & reporting on SPFS, apply requirements in SA 700.

Description of Applicable FRF

- SA 700 requires auditor to evaluate whether F.S. adequately describe applicable FRF
- In case of F.S. prepared as per contract, evaluate whether F.S. adequately describe any significant interpretations of contract on which F.S. are based.

In case of an auditor's report on SPFS: -

- (a) Auditor's report also describe purpose for which F.S. prepared and if necessary, intended users, or refer to note in SPFS that contain that info. &
- (b) If mgt has choice of FRFs, explanation of mgt's responsibility for F.S. also refer to responsibility for determining applicable FRF acceptable in circumstances.

Alerting Readers that F.S. Are Prepared as per a Special Purpose Framework (SPF)

SPFS may be used for other purposes.

For eg, regulator may require certain entities to place SPFS on public record.

To avoid misunderstandings, auditor alerts users of auditor's report that:

- F.S. are prepared as per SPF &
- may not be suitable for another purpose.

Restriction on Distribution or Use

- In addition to alert, auditor may indicate that A/R is intended solely for specific users.
- Depending on L/R applicable, this may be achieved by restricting distribution or use of A/R.
- In these circumstances, para alerting readers may be expanded to include these other matters and heading modified accordingly.

1. CA Lalita is auditor of a Co. She is also offered professional work of audit of F.S prepared specifically for meeting requirements of a loan agreement for same period. She chooses to accept work and has made up her mind to disclose this fact in "Other matter Paragraph" in audit report to be issued by her for this specific engagement. Is her approach proper?

In given situation, approach of CA Lalita is proper. No bar upon accepting such an engg. even though she is auditor of Co. Besides, she has intended to disclose this fact in "OM Para" of A/R to be issued by her for such specific engg.

2. CA Lakshmi has prepared a draft audit report for financial statements of X Ltd. prepared in accordance with financial reporting provisions of a contract with Y Ltd. She has drafted an unmodified opinion to be given in audit report. Besides, she has also drawn attention in draft audit report to Note "A" to the financial statements which describes the basis of accounting (under the heading "Basis of accounting"). How she should ensure that report would not be misused? Draft a suitable para to be included in the report for this purpose.

She may consider it appropriate to indicate that A/R is intended solely for specific users. Depending on law or regulation applicable, this may be achieved by restricting distribution or use of the auditor's report. In these circumstances, para alerting readers may be expanded to include these other matters and heading modified accordingly.

Draft para should read as under: -

Basis of Accounting and Restriction on Distribution and Use



Without modifying our opinion, we draw attention to Note A to F.S, which describes basis of accounting. F.S. are prepared to assist Co. to comply with financial reporting provisions of contract referred above. As a result, F.S. may not be suitable for another purpose. Our report is intended solely for X Ltd. and Y Ltd. & shouldn't be distributed to or used by parties other than X and Y Ltd.

SA 805-Spl. Considerations—Audits of Single F.S. & Specific Elements, Accounts or Items of a F.S.

Single F.S. is to be distinguished from complete set of F.S. For eg, cash flow statement is single F.S.

"Element of a F.S." or "element" means an "element, a/c or item of a F.S."

For eg, trade receivables or cash & bank balances.

A single F.S. or specific element of a F.S. includes related notes comprising summary of significant a/c policies & other explanatory info. relevant to F.S. or element.

Application of SAs

- SA 200 requires auditor to comply with all relevant SAs.
- In case of audit of single F.S. or specific element of F.S. this requirement applies irrespective of whether auditor also engaged to audit entity's complete set of F.S.
- If auditor not auditing complete set F.S. → determine whether such audit as per SAs is practicable. SA 200 requires auditor to comply with
 - (a) relevant ethical requirements, including independence and
 - (b) all SAs relevant to audit.
- Requires auditor to comply with each requirement of SA unless entire SA isn't relevant or requirement is not relevant.
- In exceptional circumstances, auditor may judge necessary to depart from relevant requirement in SA by performing alternative audit procedures.

Compliance with requirements of SAs relevant to audit of a single F.S. or specific element of F.S. may not be practicable when auditor is not also engaged to audit entity's complete set of F.S.

- Auditor often doesn't have same understanding of entity and its environment, including its internal control, as auditor who also audits entity's complete set of F.S.
- Auditor also doesn't have audit evidence about general quality of a/c records or other a/c info. that would be acquired in audit of complete set of F.S.
- Accordingly, auditor may need further evidence to corroborate audit evidence acquired from a/c records.
- For audit of specific element of F.S., certain SAs require audit work that may be disproportionate to element being audited. For eg, although SA 570 requirements are likely to be relevant in audit

of schedule of a/c receivable, complying with those requirements may not be practicable because of audit effort required.

- If auditor concludes that audit as per SAs may not be practicable, discuss with mgt whether another type of engg. might be more practicable.

de / SRS 4400

Acceptability of FRF

- SA 210 requires determining acceptability of FRF applied in preparation of F.S.
- For audit of single F.S. or specific element of F.S., consider whether application of FRF will result in adequate disclosures enabling intended users to understand info in FS or element & effect of material transactions & events on info conveyed in FS or element.

Note:

eg Indusneer Dr. → provision

- Single F.S. or specific element of F.S. may be prepared as per FRF based on FRF established by authorised or recognised std. setting org. for preparation of complete set of F.S.
- In such case, determine acceptability of applicable framework considering whether framework includes all relevant requirements of framework for presentation of single F.S. or specific element of F.S. that provides adequate disclosures.

Considerations When planning & performing Audit

Auditor shall adapt all SAs relevant to audit as necessary in circumstances of engg.

Audit Evidence

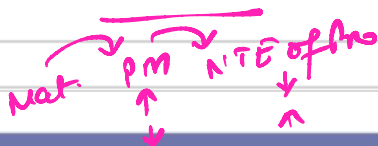
- When auditing (both) single F.S. or specific element of F.S. along with entity's complete set of F.S., auditor may be able to use audit evidence obtained as part of audit of entity's complete set of F.S. in audit of single F.S. or element.
- SAs require auditor to obtain SAAE to base opinion on single F.S. or element.

Inter-relation

- Individual FS that comprise a complete set of FS and many of elements of those FS, including their related notes, are interrelated.
- Hence when auditing single FS or specific element of FS auditor may not be able to consider FS or element in isolation.
- Auditor may need to perform procedures in relation to interrelated items to meet objective of audit.

Materiality

- Materiality determined for a single F.S. or specific element of a F.S. may be lower than materiality for entity's complete set of F.S.;
- Affecting NTE of audit procedures & evaluation of uncorrected misstatements.



Dr. → Sales

Natural?

Comm



Form of Opinion

SA 210 requires agreed terms of audit engg include expected form of reports to be issued by auditor.

For audit of single F.S. or specific element of F.S. → consider whether expected form of opinion is appropriate in circumstances.

Applicable FRF?

- For single FS or specific element of F.S., applicable FRF may not explicitly address presentation of FS or element.
- This may be case when applicable FRF is based on FRF established by authorised or recognised standards setting org. for preparation of complete set of FS
- Auditor considers whether expected form of opinion appropriate in light of applicable FRF.

Factors that may affect auditor's consideration as to whether to use phrases "presents fairly, in all material respects", or "gives a true and fair view" in auditor's opinion include:

- Whether applicable FRF is explicitly or implicitly restricted to preparation of complete set of F.S.
- Whether single F.S. or specific element of F.S. will:
 - Comply fully with requirements of framework relevant to particular FS or element, & presentation of FS or specific element of F.S. include related notes & disclosures
 - If necessary to achieve fair presentation
 - ✓ provide disclosures beyond those specifically required by framework or,
 - in exceptional circumstances, depart from a requirement of the framework.

Auditor's decision as to expected form of opinion is a matter of professional judgment.

Forming an Opinion and Reporting Considerations

When forming opinion & reporting on single F.S. or specific element of F.S. → apply SA 700

1. Separate Opinion: If auditor reports on single F.S. or specific element of F.S. along with engg. to audit entity's complete set of F.S., auditor shall express separate opinion for each engg.
2. Published Together: Audited single F.S. or specific element of F.S. may be published together with entity's audited complete set of F.S.
3. Differentiation:
 - ✓ If auditor concludes presentation of single F.S. or specific element of F.S. doesn't differentiate it from complete set of F.S. → ask mgt to rectify the situation.
 - ✓ Auditor shall also differentiate opinion on single F.S. or specific element of F.S. from opinion on complete set of F.S.
 - ✓ Auditor shall not issue A/R containing opinion on single F.S. or specific element of F.S. until satisfied with differentiation.

4. Modified opinion/EOM/OM Para

- Auditor's opinion on complete set of F.S. is **modified** or report includes **EOM** or **OM para**, auditor shall **determine effect** of this on A/R on **single F.S. or specific element** of those F.S. When deemed appropriate, auditor shall modify opinion on single F.S. or specific element of F.S., or include **EOM** or **OM para** in A/R. → **NMT + Pervasive**
- If auditor express **adverse or disclaim** an opinion on entity's complete set of F.S. as a whole, **SA 705 doesn't permit** to include in same A/R **unmodified opinion on a single F.S. or specific element** of those F.S. Because such unmodified opinion would contradict adverse or disclaimer of opinion on entity's complete set of F.S. as a whole. → **unqualified chhota → gadi**

If auditor concludes necessary to express **adverse opinion** or **disclaim opinion** on entity's complete set of F.S. but, in context of a **separate audit of specific element** included in those F.S, auditor nevertheless considers appropriate to express **unmodified opinion**, auditor shall only do so if:

- gm
- Not prohibited** by law or regulation
 - Opinion is expressed in auditor's report **not published together** with auditor's report containing **adverse opinion or disclaimer of opinion** and
 - Specific element **doesn't constitute major portion** of entity's complete set of F.S.

Q. What about Single Set of F.S.?

Not express unmodified opinion on a single F.S. [if A/D of opinion on Complete F.S.] even if A/R on single F.S. not published together with A/R containing A/D of opinion. Because **single F.S is deemed to constitute a major portion** of those F.S.

As per SA 700 → Single F.S. or element, including related notes, in view of requirements of applicable FRF, provides adequate disclosures to enable intended users to understand info. conveyed in F.S. or element, & effect of material transactions & events on information conveyed in F.S. or element.

Other Matter Para → Referring to Modification/EOM/OM para in Complete set F.S.

Even when **modified opinion** on entity's **complete set of F.S.**, EOM or OM para doesn't relate to audited **single F.S. or element**, auditor may still deem it appropriate to refer to modification in OM para in A/R on F.S or element because auditor judges it to be **relevant to users' understanding of audited single F.S. or element or related A/R.**

What? It's Different!!

In A/R on entity's **complete set of F.S.**, **disclaimer of opinion on results of operations & cash flows**, where relevant & **unmodified opinion on state of affairs** is permitted since disclaimer of opinion is being issued in respect of results of operations & cash flows only & not in respect of F.S. as whole. → **one Para US. P&L**

Examples of Specific Elements, Accounts or Items of a F.S. are:

- ✓ Accounts receivable, allowance for doubtful a/c receivable, inventory, liability for accrued benefits of pvt pension plan, recorded value of identified intangible assets, or liability for "incurred but not reported" claims in insurance portfolio, including related notes.
- ✓ Schedule of externally managed assets & income of a pvt pension plan, including related notes.
- ✓ Schedule of net tangible assets, including related notes.
- ✓ Schedule of disbursements in relation to a lease property, including explanatory notes.

1. CA M. Surya is auditor for F.S. of entity prepared as per financial reporting provisions of a contract. He is also offered audit of trade receivables appearing in above F.S. Can he accept such engagement? Discuss brief outline of his audit approach in such a situation.

Single financial statement or specific element, account or item of a F.S. may be prepared as per a general or special purpose framework. If prepared as per a special purpose framework, SA 800 also applies to audit.

In given case, F.S. of entity are prepared as per financial reporting provisions of a contract. It is a special purpose framework. Auditor of F.S. prepared as per special purpose framework is also offered audit of trade receivables appearing in above F.S. which relates to audit of element of F.S. prepared as per special purpose framework.

Hence, his audit approach should include considering requirements of both SA 800 and SA 805.

2. CA G is offered appointment for audit of trade payables of F.S. of a Co. However, F.S. prepared under Companies Act, 2013 are audited by CA Jignesh. Discuss why it would be practically difficult for CA G to perform such an audit.

Compliance with requirements of SAs relevant to audit of a single F.S. or specific element of a F.S. may not be practicable when auditor is not also engaged to audit entity's complete set of F.S. In such cases, auditor often doesn't have same understanding of entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of F.S. Accordingly, auditor may need further evidence to corroborate audit evidence acquired from A/C records. In case of audit of a specific element of a F.S, certain SAs require audit work that may be disproportionate to element being audited. If auditor concludes audit of a single F.S. or specific element of a F.S. as per SAs may not be practicable, discuss with mgt whether another type of enng. might be more practicable.