

Ch- 8 "Specialised Areas" [4-5 Maru]

(SA 800, 805, 810)

Introduction

Audit

↓

F.S.

↓

✓ Complete set

↓

General Purpose

↓

Common Information

Needs of Users

↓

Criteria-

detailed financial info.

✓ Abridged F.S. | Summary F.S.

SA-810

Opinion-

✓ Single F.S.

Sp. Consideration
(805)

✓ Specific Element

✓ Special Purpose F.S.

[CASH BASIS]

✓ Specific User - Specific Purpose
(F.I.) | Stock Ex. | Purpose

(CASH BASIS)
Loan

(Special Consideration)

SA-800

Bls
(0%)
Sttn. of P&L
(0%)
CFS
(0%)
SOCE
PPE
Rece.
Inv.
Inv.

Q Audit of Single F.S. / Specific Account

Prepared on basis of General Purpose framework
Special Consideration-
(a) SA 800 (b) ~~SA 805~~
(c) SA 800 + 805 (d) 800 or 805
Prepared on basis of Special Purpose framework
Special Consideration-
(a) SA 800 (b) SA 805
(c) ~~SA 800 + 805~~ (d) 800 or 805

Topics to be covered: (1) SA-800 Special Considerations - Audits of F.S. prepared in accordance with Special Purpose Framework.

(2) SA-805 Special Consideration - Audits of Single F.S. and Specific Elements, Accounts and Items of a F.S.

(3) SA-810 "Engagements to Report on Summary F.S."

(1) SA-800 "Special Consideration - Audits of F.S. prepared in accordance with Special Purpose Framework" ↓ [Complete Set of F.S.]

(i) Meaning of Special Purpose Framework: From Notes

(ii) Special Considerations when accepting the Engagement:

(1) Determine acceptability of FRF applied in the Circumstances considering the requirements of SA 810.

(2) Obtain an understanding of

(a) Purpose for which F.S. are prepared;

(b) Intended Users; and

(c) Steps taken by the management to determine acceptability of FRF.

(3) Key factor in determining acceptability of FRF is financial information needs of Intended Users.

(4) Applicable FRF → Financial Reporting Standards established by Authorised Organisations (e.g. ICAI/NFRA)

↓
Whether

Supplemented by regulatory requirements (e.g. RBI, SEBI)

↓ If yes

Determine whether any conflict exist between FR standards and additional requirements

↓ If yes

Take Appropriate action.

(5) Applicable FRF → Financial reporting provisions of a Contract

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Consider whether framework exhibits attributes

as described in SA 210. [Relevance, Reliable, Completeness, Neutrality, Understandability.]

Note: Importance of attributes in a particular circumstances of Engagement is a matter of professional judgement.

(iii) Special Consideration - when planning and performing an audit:

(1) Determine whether Application of SAs requires special consideration.

For Ex: In SA 320, Judgement about materiality of an item is to be based on consideration of financial information needs of Intended Users (instead of Common users).

(2) While determining application of SA, auditor is required to Consider the requirements of SA 200 on applicability of SA.

Note: SA 200 requires the auditor (a) to comply with relevant ethical requirements; and

(b) All SAs relevant to audit.

(for Ex: SA 510, 710, 402)

(3) If F.S. are prepared in accordance with requirements of a contract, management may agree with intended users on a threshold below which misstatements will not be adjusted.

Existence of such threshold does not relieve the auditor to determine materiality in accordance with SA 320.

(4) If responsibility for oversight of preparation of Special Purpose F.S. is of persons other than TCWG, requirements of SA 260 may not be relevant to audit of Special Purpose F.S.

[for ex: Managerial person is responsible for Oversight of prepⁿ of F.S.]

(iv) Forming an opinion and Reporting on F.S.:

(1) Apply the requirements of SA 700.

(2) Evaluate whether the F.S. adequately refer to or describe the applicable FRF.

- Auditor's report shall describe - (a) Purpose for which F.S. are prepared; and (b) Intended users.
- If Mngt. has a choice of FRFs, explanation of management responsibility shall make reference of its responsibility for determining acceptability of FRF.

(3) Emphasis of Para:

- Special purpose F.S. may be used for purpose other than those, for which they were intended.
- To avoid misunderstanding, auditor shall alert users that the F.S. are prepared in accordance with SPF and hence may not be suitable for another purpose.

(4) Restrictions on distribution and Use:

- In addition to alert discussed above, auditor may consider it appropriate

to indicate that auditor's report is intended for specific users.

- It may be achieved by restricting the distribution and use of auditor's report.
- In such circumstances, paragraph alerting the users may be expanded to include these matter and heading. "Basis of Accounting and Restriction on distribution and use" may be applied.

(5) Other Matter Para:

If auditor is engaged to audit the general purpose f.s. also, it will be appropriate for the auditor to disclose this fact in "Other Matter Paragraph" of the audit report for such engagement.

A.R. on General Purpose f.s. → OM Para (AR - Special Purpose)

✓ A.R. " Special " " → OM Para (AR - General Purpose)

Ch-8 "Specialised Areas"

(2) SA 805 - Specific Consideration - Audits of Single F.S. and Specific Elements, Accounts or Items of a financial statement:

(i) Meaning of Single F.S. and Specific Element: - From Book -

(ii) Engagement Acceptance Considerations:

(A) Application of SA:

- SA 200 requires the auditor to comply with requirements of all relevant SAs. Auditor should determine whether application of SAs requires special Consideration.
- Determine practicability of audit of Single F.S. / Specific Element, if not engaged to audit the complete set of F.S.
- Compliance with requirements of SAs may not be practicable when auditor is not also engaged to audit Complete set of F.S., as auditor does not have same understanding of Entity, its environment and Internal Controls as an auditor who audit the complete set of F.S.
- In case of audit of specific element, certain SAs requires audit work that may be disproportionate to the efforts required. (e.g. Requirements of SA 510 in case of audit of accounts receivable).

(B) Acceptability of FRF:

- SA 210 requires auditor to determine acceptability of FRF applied in the preparation of the Single F.S. / Specific Element.
- Ensure that adequate disclosures made to enable intended users to understand the information conveyed in Single F.S. / Specific Element
- If FRF established by authorised standard setting Organisation, consider whether FRF includes all requirements of framework on which it is

based and provides adequate disclosures.

(iv) Planning and Performance Consideration:

- Adapt all SAs relevant to the audit.
- If also engaged to audit complete set of F.S., Audit evidence obtained may be useful; but auditor nevertheless need to plan and perform audit of Single F.S. / Specific Element to obtain SAAE on which to base his opinion.
- In relation to interrelated items, Auditor shall perform required procedures to meet the objectives of audit.
- Materiality determined for a Single F.S. / Specific element may be lower than materiality for the complete set of F.S.; this may affect NTE of audit procedures and Evaluation of uncorrected Misstatements.

(v) Forming an Opinion and Reporting Consideration:

- Apply SA 700 adapted, as necessary in the Circumstances.
- If engaged to report on complete set of F.S.; express separate opinion on each engagement.
- If audited Single F.S. / Specific Element published with complete set of financial statements, presentation of Single F.S. / Specific Element should be clearly differentiated from complete set of F.S.

Imp. Special Circumstances:

Audit Report on Complete Set of F.S.

- ↓
- Modified opinion (Qualified)
 - Includes EOM Para / OM Para

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Determine its effect on Auditor's Report on Single F.S. / Specific Element

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If deemed appropriate, Modify opinion on Single F.S. / Specific Element; or include EOM Para / OM Para in audit report on Single F.S. / Specific Element.

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Adverse Opinion / Disclaimer of Opinion

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SA 705 → does not permit unmodified opinion on Single F.S. / Specific Element by Same Auditor.

Imp. Exception:

- Unmodified opinion on Specific Element may be expressed if:
 - (a) Not prohibited by law and regulation;
 - (b) Audit report on specific element is not published together with audit report on complete set of F.S.; and
 - (c) Specific Element does not constitute a major portion of Entity's complete set of F.S.
- Unmodified opinion regarding state of affairs is permitted, if Disclaimer issued w.r.t. result of operations and cash flows.

Example:

Audit opinion on Complete Set of f.s.



- Unmodified opinion

- Adverse opinion

- Disclaimer of opinion

→ Audit opinion on Single f.s.



Modified opinion not permitted as it creates contradiction

Unmodified opinion not permitted as it creates contradiction

Unmodified opinion is not permitted in general.
However, unmodified opinion regarding state of affairs is permitted, if disclaimer of opinion was issued w.r.t. results of operations and cash flows.

Audit opinion on Specific Element

Modified Opinion permitted if Element does not have a Material effect on f.s. as a whole.

Unmodified opinion permitted, if
(a) Not prohibited by L&R.
(b) A.R. on complete f.s. Published separately.
(c) Specific Element is not major portion of f.s.

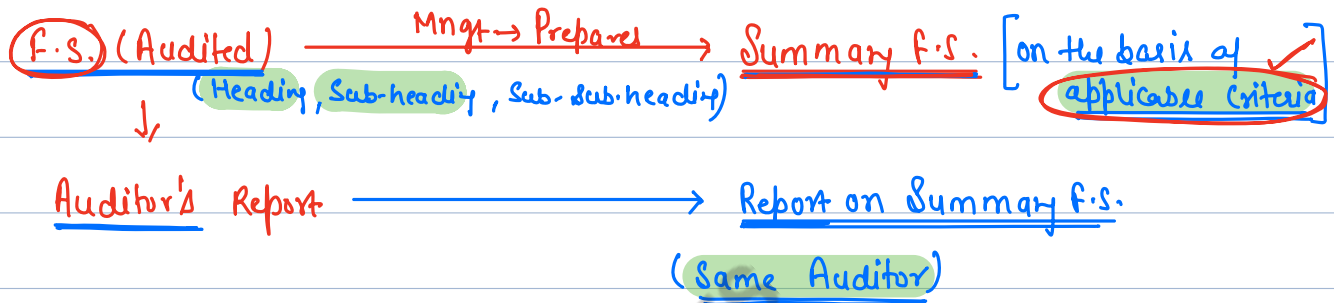


- ~~same~~ -

Chapter - 8 "Specialised Areas"

Topics Covered: (i) SA - 800
(ii) SA - 805

(iii) SA - 810 - Engagements to Report on Summary f.s.



(A) Meaning of Summary f.s.: Historical financial information that is derived from f.s.

Capital	Summary f.s.
A x	<u>Capital</u>
J x	Puc x x
J x	
C x	
P x	

↓
but contains Less details than f.s.; while still providing a structured representation consistent with Entity f.s.

(B) Scope of SA 810: SA 810 deals with auditor's responsibility when undertaking an engagement to report on summary f.s., in accordance with SA 810 by same auditor.

Imp:

(C) Engagement Acceptance:

(i) Accept only when also engaged to audit those f.s. from which Summary f.s. have been derived. (Same Auditor).

(ii) Before accepting the engagement, Auditor shall:

(A) Determine acceptability of applied criteria.

(B) Obtain agreement of management that management acknowledges and understand its responsibilities:

I. For preparation of summary f.s.

II. To make available, the audited f.s. to intended users;

III. To include auditor's report on summary f.s. in any document that contains summary f.s.

(C) Agree with management the form of opinion to be expressed on summary f.s.

(D) Applied Criteria: Criteria applied by the management in the preparation of summary f.s. It may be:

(i) Established Criteria

Criteria established by
authorised standards
setting authorities

(ii) Developed Criteria

Criteria developed by
Mngt.

If Established
Criteria does not exist

Note: If auditor concludes that applied criteria is unacceptable, auditor should not accept the engagement.

Factors affecting auditor's determination of acceptability of applied criteria:

(i) Nature of Entity.

(ii) Purposes of Summary f.s.

(iii) Information needs of intended users of summary f.s.;

(iv) whether applied criteria will result in summary f.s. that are not misleading in the circumstances.

Imp- (E) Nature of Procedure:

I. Evaluations

Auditor shall evaluate:

- (i) whether SFS adequately disclose their summarised nature; and Identify the audited f.s.
- (ii) If SFS are not accompanied by audited f.s., whether SFS clearly describe from whom or where audited f.s. are available.
- (iii) whether SFS disclose applied criteria adequately.
- (iv) whether SFS contain necessary information.
- (v) whether SFS are prepared in accordance with applied criteria.
- (vi) whether audited f.s. are available to intended users without undue difficulty.

Disclosure
Summarised Nature
Applied Criteria

Audited f.s.
Identity from whom or where available

Summary f.s.
Info- Prepared per A.C.

II. Comparisons

Auditor shall compare the summary f.s. with related information in audited f.s.

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to determine

↓
whether SFS agree with

or

Can be recalculated from

↓
related information in audited f.s.

(F) Forming an opinion and Reporting:

(i) Unmodified opinion: Auditor shall express unmodified opinion, if:

(a) SFS are consistent in all material respects with audited f.s. in accordance with applied criteria;

or

(b) SFS are a fair summary of audited f.s. in accordance with applied criteria.

(ii) Adverse opinion: If f.s. are not consistent in all material respects with audited f.s.; and

Management does not agree to make necessary changes



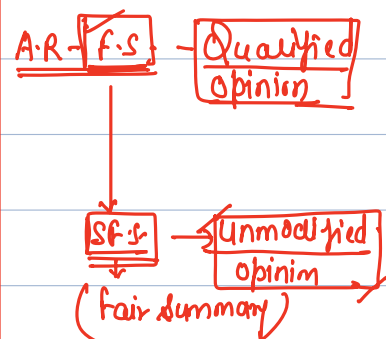
auditor shall express Adverse Opinion on Summary f.s.

Imp.

Special Cases:

(A) Auditor's Report on Audited f.s. includes Qualified Opinion or EOM/OM Para:

- Auditor's report on Summary f.s. shall state:
 - (i) That Summary f.s. are a fair summary of audited f.s. in accordance with (Applied Criteria).
 - (ii) That Auditor's report on Audited f.s. contains Qualified opinion or includes EOM or OM Para.
- Auditor's report on Summary f.s. shall also describe
 - (a) Basis for Qualified opinion and Qualified opinion;
 - (b) EOM/OM Para; and
 - (c) Effects thereof on Summary f.s., if any.



Audited f.s.

Unmodified Opinion

Qualified opinion

Adverse opinion or
Disclaimer of opinion

(A) Summary f.s. : Fair - Unmodified

(B) " : Inconsistent - Adverse

(A) Fair Summary f.s. → Unmodified opinion with BFA/DO

(B) Inconsistent summary → Adverse + BFA/DO

(Denial of opinion)

(B) Auditor's report on audited f.s. contains Adverse Opinion or Disclaimer of opinion:

Auditor's report on Summary f.s. shall include the following:

- (i) Statement that auditor's report on audited f.s. contains adverse Opinion or disclaimer of opinion.
- (ii) Description of basis of such opinion.
- (iii) Statement that as a result of adverse opinion or disclaimer of opinion on audited f.s., it is inappropriate to express an opinion on Summary f.s.

(G) Elements of Report on Summary f.s.: ✓ Title

✓ Addressee

✓ Introductory Paragraph

✓ Management Responsibility Para details (Reading from Book)

✓ Auditor Responsibility Para

✓ Auditor's Opinion

✓ " Signature

✓ Date

✓ Place

(H) Auditor's Association: From Notes

Audited f.s. → A.R.

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Summary f.s. → No Engagement

Sfs → document → Audited f.s. + A.R.

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Stm. derived from audited f.s.

Reference → Auditor's report on Audited f.s.

+

Stm. does not give

Impression that auditor

has reported on sfs