

8.1 – SA 800 “Special Considerations – Audit of F.S. Prepared in accordance with Special Purpose Frameworks”

Q.1 CA Aman is the auditor of Global Infra Ltd., a listed company. He is auditing financial statements prepared by the company to comply with the financial reporting provisions of a concessional loan agreement. In preparing these statements, management has made a significant interpretation of the contract regarding the treatment of "Government Grants" as revenue. These financial statements are included in a "Lender's Compliance Report" which contains additional information regarding project milestones. During his audit, Aman identifies complex revenue recognition issues that were also communicated as Key Audit Matters in his statutory audit report for the general purpose financial statements.

In light of the relevant Standards on Auditing, discuss the auditor's responsibilities regarding the evaluation of the framework's description and the specific reporting requirements for this engagement.

Ans.: Description of the Applicable Financial Reporting Framework:

- In the given case, the financial statements are Special Purpose Financial Statements as they are prepared to comply with the **financial reporting provisions of a concessional loan agreement**.
- As per SA 800, "Special Considerations - Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks", the auditor shall evaluate whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based. An interpretation is considered significant when the adoption of another reasonable interpretation would have produced a material difference in the information presented in the financial statements.
- Thus, CA Aman must evaluate if management's interpretation of "Government Grants" is adequately disclosed.

Specific reporting requirements

- Regarding the complex revenue issues, SA 800 stipulates that when key audit matters are communicated in the auditor's report on special purpose financial statements, SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report", applies in its entirety. Therefore, CA Aman must follow the requirements of SA 701 if he determines these matters are relevant to the intended users of the special purpose financial statements.
- In respect of the "Lender's Compliance Report," SA 800 clarifies that reports containing or accompanying special purpose financial statements - the purpose of which is to provide owners or similar stakeholders with information on matters presented in those statements - are considered "Annual Reports" for the purposes of SA 720.
- Consequently, CA Aman must apply SA 720, "The Auditor's Responsibilities Relating to Other Information", to identify any material inconsistencies between the report and the audited statements.
- To avoid misunderstandings, the auditor is required to include an Emphasis of Matter paragraph as per SA 706, explaining that the financial statements are prepared in accordance with a special purpose framework and may not be suitable for another purpose.

	Furthermore, the auditor may deem it appropriate to refer, in an Other Matter paragraph in the auditor's report on the special purpose financial statements, to the auditor's report on the complete set of general purpose financial statements or to matter(s) reported therein as per SA 706 (Revised).
Q.2	CA Sahil is auditing a complete set of special purpose financial statements of Vividh Manufacturing Ltd., prepared to meet the financial reporting provisions of a specific contract with a vendor. While the report is intended solely for the vendor, a sector regulator has mandated the company to place these statements on public records. Sahil is concerned that the public may misunderstand the basis of accounting and intends to ensure the report is not utilized by unintended parties. In light of the relevant Standards on Auditing, discuss the auditor's reporting obligations to address these concerns and provide the draft wording for the relevant paragraph to be included in the audit report. Ans.: Reporting Obligations in case of audit of Special Purpose Financial Statements: - In the given case, since the special purpose financial statements are being placed on public records, there is a risk of them being used for purposes other than those intended. As per SA 800, "Special Considerations - Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks", the auditor must address this through specific reporting measures. - To avoid misunderstandings, the auditor is required to alert the users by including an Emphasis of Matter (EOM) paragraph explaining that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose. As per SA 706, this must be included within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter". - Furthermore, the auditor may consider it appropriate to indicate that the auditor's report is intended solely for the specific users. Depending on the law or regulation applicable, this may be achieved by restricting the distribution or use of the auditor's report. In these circumstances, the paragraph alerting the readers may be expanded to include these other matters, and the heading modified accordingly. - The draft paragraph for CA Sahil's report should be as follows: Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use "We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Company in complying with the financial reporting provisions of the contract referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Company and the Vendor and should not be distributed to or used by parties other than the Company or the Vendor. Our opinion is not modified in respect of this matter."

8.2 – SA 805 "Special Considerations – Audits of Single F.S. and Specific Elements, Accounts or Items of a F.S."

Q.3	CA Garvit is appointed to conduct an audit of the "Schedule of Accounts Receivable" of Zeta Ltd. for the financial year ended 31st March 2026. He was also the auditor for the company's complete set of general purpose financial statements for the same period, where he had issued a qualified opinion due to the improper classification of long-term debt. During the current engagement, Garvit is evaluating whether this qualification has any impact on his audit of the specific element. In light of the relevant Standards on Auditing, discuss the auditor's responsibility regarding the implications of matters reported in the audit of the complete set of financial statements and factors influencing this judgment.
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Ans.: Reporting Considerations in case of audit of Specific Elements:

In accordance with SA 805, "Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement", an auditor is required to consider the implications of matters included in the auditor's report on the complete set of financial statements for the audit of a single financial statement or specific element.

Whether a matter from the complete set of financial statements is relevant to the specific element engagement involves the exercise of **professional judgment**.

The following factors are relevant in considering these implications:

- (1) The nature of the matter described in the report on the complete set of financial statements and the extent of its relation to the single financial statement or specific element.
- (2) The pervasiveness of the matter(s) described in the auditor's report on the complete set of financial statements.
- (3) The nature and extent of the differences between the applicable financial reporting frameworks used.
- (4) The extent of difference between the periods or dates covered by the complete set of financial statements compared to the specific element.
- (5) The time elapsed since the date of the auditor's report on the complete set of financial statements.

In the given case, CA Garvit issued a qualification regarding the classification of long-term debt in the complete set of financial statements. As per SA 805, if a qualification relates to long-term debt, it is less likely to have implications for an audit where the specific element relates to accounts receivable.

Conversely, had the qualification in the complete set of financial statements been related to accounts receivable itself, it would likely have significant implications for the current audit of the Schedule of Accounts Receivable.

Q.4 CA Mehak has been engaged to audit the "Statement of Cash Receipts and Disbursements" of an entity. The financial reporting framework applied for this statement is based on the accounting standards established by a recognized standard-setting body for a complete set of financial statements; however, the framework does not explicitly address the presentation of such a single financial statement. During the planning stage, Mehak is evaluating whether she can use the phrase "presents fairly, in all material respects" in her audit opinion. In light of the relevant Standards on Auditing, discuss the factors that CA Mehak should consider in determining the appropriateness of the form of her audit opinion.

Ans.: Form of Opinion:

- SA 805, "Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement", requires that the auditor must consider whether the expected form of opinion is appropriate in the circumstances. The form of opinion depends on the applicable financial reporting framework and any applicable laws or regulations.
- As per SA 700, an unmodified opinion under a fair presentation framework typically uses phrases such as "presents fairly, in all material respects" or "gives a true and fair view," whereas a compliance framework requires a statement that the financial statements are "prepared, in all material respects, in accordance with the framework".
- In the case of a single financial statement or a specific element, the applicable framework may not explicitly address its presentation. Consequently, the auditor's decision regarding the form of opinion is a matter of professional judgment. The factors affecting the consideration to use "fair presentation" phrases 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 will comply fully with each of the requirements of the framework relevant to it, including the related disclosures. (c) Whether it is necessary to provide disclosures beyond those specifically required by the framework or, in exceptional circumstances, depart from a requirement of the framework to achieve fair presentation. • Furthermore, the auditor's judgment may be affected by whether the use of such phrases for a single financial statement or specific element is generally accepted in the particular jurisdiction.
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8.3 – SA 810 “Engagements to Report on Summary Financial Statements (SFS)”

Q.5	CA Vineet was the statutory auditor for the financial statements of Surbhi Ltd. for the FY 2025-26. While the company has prepared summary financial statements derived from these audited accounts, Vineet was not engaged to report on these summaries. Recently, Vineet discovered that the company's "Annual Highlights" document includes a statement that refers to him as the auditor and mentions that the summaries are derived from the financial statements audited by him. Vineet is concerned that this reference might lead users to believe he has audited the summary financial statements as well. Discuss the auditor's obligations to ensure appropriate association and the steps to be taken if management refuses to modify the statement.
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Ans.: Auditor Association:

- The situation is governed by SA 810, "Engagements to Report on Summary Financial Statements", which provides specific guidance on Auditor Association when an auditor is referred to in a document containing summary financial statements they have not reported on.
- When an auditor is engaged to report on the full financial statements but not the summary financial statements, and they become aware of a reference to them in a document containing such summaries, they must 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.
- If these conditions are not met, the auditor is required to request management to change the statement to comply with them or to remove the reference to the auditor entirely. Alternatively, the entity may choose to engage the auditor to report on the summary financial statements and include that report in the document.
- If management refuses to change the statement, delete the reference, or include a formal audit report on the summaries, the auditor must advise management of their disagreement with the reference. Furthermore, the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately referring to the auditor in that document.