

SA 800 dealing with audit of FS prepared in accordance with special purpose framework

What is Special Purpose framework?

A FRF designed to meet the:	
Common financial information needs of a wide range of users is known as "General purpose framework"	Financial information needs of specific users is known as "Special purpose framework"

FRF may be a fair presentation framework or a compliance framework. Examples of Special purpose frameworks are: -

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

Considerations When Accepting Such Engagement

In the case of special purpose FS, the financial information needs of the **intended users** are a **key factor in determining the acceptability of the FRF**.

- Applicable FRF may encompass the **financial reporting standards established by organisation** that is authorised or recognised 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.
- **Some L/R may prescribe the FRF** to be used by mgt. in the preparation of special purpose FS for a certain type of entity.
For ex- a regulator may establish financial reporting provisions to meet the requirements of that regulator. In the absence of indications to the contrary, such a FRF is presumed acceptable for special purpose FS prepared by such an entity.
- Applicable FRF may encompass the financial reporting provisions of a contract or sources other than those described in preceding paras.

In that case, the **acceptability of the FRF** is determined by considering **whether the framework exhibits attributes normally exhibited by acceptable FRFs** in accordance with the requirements of SA 210.

Attributes normally exhibited by acceptable FRFs is a matter of professional judgment.

Notes: 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 additional requirements exist and prescribes actions to be taken by the auditor** if such conflicts exist.

- **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

SA 200

- SA 200 requires the auditor to comply with relevant ethical requirements, including independence, and all SAs relevant to the audit.
- Comply with **each requirement of an SA** unless, **entire SA is not relevant or requirement is not relevant** because it is conditional and the condition does not exist.
- 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.

SA 320

- Application of some of the requirements of SAs in an audit of special purpose FS may require **special consideration** by the auditor.
- For example, in SA 320, judgments about matters that are material to users of the FS 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 FS, however, those judgments are based on a consideration of the financial information needs of the intended users.
- In the case of special purpose FS, 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** 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 FS.

SA 260

- SA 260 requires the auditor to determine the **appropriate person(s)** within the entity's with **whom to communicate**.
- Those person(s) responsible for the **oversight of the preparation of the special purpose FS** may not be the same as TCWG responsible for the oversight of the preparation of those general purpose FS.

SA 700

When forming an opinion and reporting on special purpose financial statements, auditor shall apply the requirements of SA 700.

Description of the Applicable FRF

SA 700 requires auditor to evaluate whether the FS adequately refer to or describe the applicable FRF.

In case of FS prepared in accordance with provisions of a **contract**, auditor shall evaluate whether the FS adequately describe any significant interpretations of the contract on which the FS are based.

SA 700 deals with form and content of the auditor's report. In the case of an auditor's report on special purpose financial statements: -

- Auditor's report shall also **describe the purpose** for which the FS are prepared and, if necessary, the **intended users**, or **refer to a note** in the special purpose FS that contain that information; and
- If **management has a choice of FRFs** in the preparation of such FS, the **explanation of management's responsibility** for the FS shall also **make reference to its responsibility for determining that the applicable FRF is acceptable in the circumstances**.

Alerting Readers that the FS Are Prepared in Accordance with a Special Purpose Framework

Special purpose FS may be used for purposes other than those for which they were intended. For ex- a regulator may require certain entities to place the special purpose FS on public record. To avoid misunderstandings, auditor alerts users of the auditor's report that the FS are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose.

Restriction on Distribution or Use

- Auditor may consider it **appropriate to indicate** that auditor's report is intended solely for the specific users.
- Depending on the L/R 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**.