



CA FINAL



**HANDWRITTEN NOTES
ADVANCED AUDITING**

For MAY 24 & onwards

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CHAPTER - 8

SPECIALISED AREAS

★ Overview of chapter :

- ▶ Introduction : Special considerations apply in respect of audit of FS prepared in accordance with Special purpose framework.

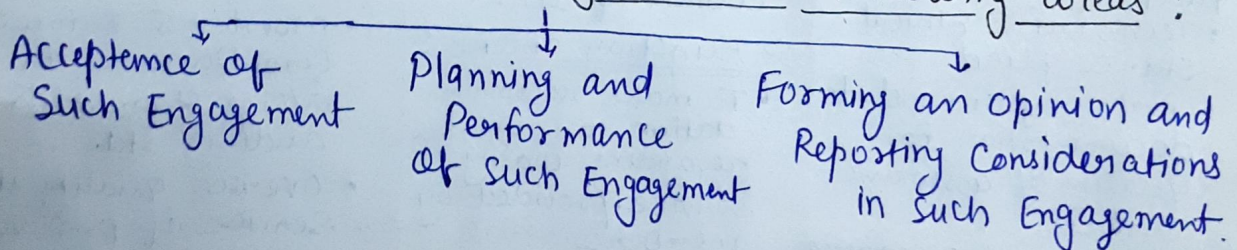
It also apply to an audit of a single FS or of specific Element, account or item of FS.

Special responsibilities are cast upon auditor in case of undertaking an engagement to report on summary FS derived from FS audited by that same auditor.

▶ Standards which are covered in this chapter :

- SA 800 : Special Considerations applicable in respect of the audit of FS prepared with special purpose framework
- SA 805 : Special Considerations applicable to an audit of single FS or of specific Element, alc or item of FS
- SA 810 : Responsibilities of auditor when undertaking an Engagement to report on summary FS [SFS] derived from FS audited by that same auditor.

▶ All aforesaid SA broadly deal with following areas :



SA 800 : Special Considerations - Audit of FS prepared in accordance with Special Purpose Frameworks

Concept 1 : What is special Purpose Framework

Concept 2 : Special Considerations that are relevant

Concept 3 : Description of Applicable FRF

Concept 4 : Alerting Readers that FS are prepared in accordance with special purpose framework.

Concept 5 : Restriction on Distribution or use of Audit Report.

Concept 1 What is special Purpose Framework ??

Types of framework

General Purpose Framework

A FRF designed to meet Common fin. info. needs of wide range of users.

Special Purpose Framework

A FRF designed to ~~meet~~ meet fin. info. needs of specific users.

FRF may be a $\left\{ \begin{array}{l} \text{Fair presentation framework} \\ \text{Compliance framework} \end{array} \right.$

Eg. of Special Purpose Framework

Cash flow info. prepared for creditors.

FS prepared for investors

FRF developed by regulator

FRF as per Contract.

Concept 2 Special Considerations that are relevant as per SA 800

(a) Acceptance of the Engagement

(b) Planning & Performance of that Engagement

(c) Forming an opinion and Reporting on FS

(a) Considerations when accepting such Engagement

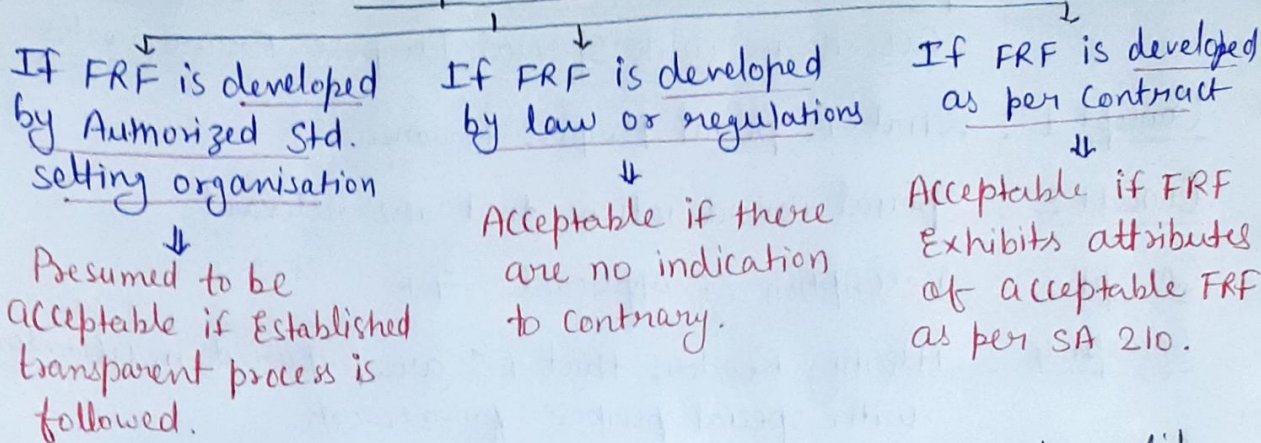
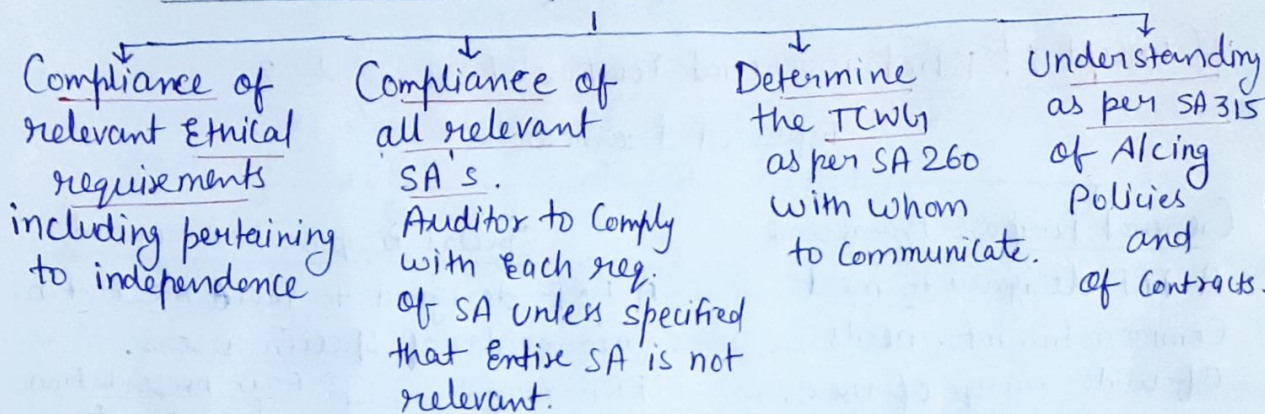
3 things should be considered while accepting Engagement :-

1.) Purpose of such Engagement

2.) Intended users of that framework. & fin. info.

3.) Acceptable FRF : A framework should be acceptable when it is prepared in accordance with Std.

Detailed discussion on Next page.

Acceptable FRF(b) Considerations when planning & performing such audit

(c) Forming an opinion & Reporting on FS : The auditor shall apply the requirements in Revised SA 700.

Concept 3 Description of applicable FRF

- Revised SA 700 requires the auditor to evaluate whether FS adequately refer or describe applicable FRF.
- If FS are prepared as per contract, the auditor shall evaluate whether FS adequately describe any significant interpretation of contract on which FS are based.
- Revised SA 700 deals with form & content of auditor's report.

In case of Auditor's report on special purpose FS

- Describe purpose for which FS are prepared & intended users or refer a note which contains information.
- If mgmt. has choice of FRF then Explanation of mgmt's responsibility is considered for determining acceptable FRF.

Concept 4 | Alerting Readers

Special purpose FS may be used for purposes other than for which they were intended.

To avoid misunderstanding, the auditor alerts users of the audit report that FS are prepared with special purpose framework, and therefore may not be suitable for another purposes.

Concept 5 | Restriction on Distribution or Use

In addition to above discussed alert, the auditor indicate that auditor's report is intended solely for specific users.

Depending on law or regulation, this may be achieved by restricting distribution or use of Auditor's report.

In these circumstances, Para alerting the readers may be expanded to include these other matters and heading modified accordingly.

SA 805 : Special Consideration - Audit of Single FS and Specific Elements, A/Cs Or Items of FS

Concept 1 : Interlinking Aspect of preparation of FS

Concept 2 : What is Single FS and Element of FS

Concept 3 : Special Considerations that are relevant

Concept 4 : Eg. of specific elements, A/Cs or items of FS

Concept 1 | Interlinking Aspect

SA 805 deals with special considerations in the application of those SA's to an audit of a single FS or of a specific element, account or items of FS.

It may be prepared in accordance with

- General Purpose framework → Apply SA 805 + SA 200 to 700
- special purpose framework → Apply SA 800 + 805 + SA 200 to 700

★ SA 805 does not apply to the report of Component auditor as work performed at request of group Eng. team for purpose of an audit of group fin. statements.

★ Objective : Obj. is to address appropriately the special considerations that are relevant to acceptance, planning & performing Eng. and forming opinion & reporting but Not for Expressing opinion on Effectiveness of Entity's Internal Control.

Concept 2 What is Single FS and Element of FS ??

Single FS : It is to be distinguished from complete set of FS.

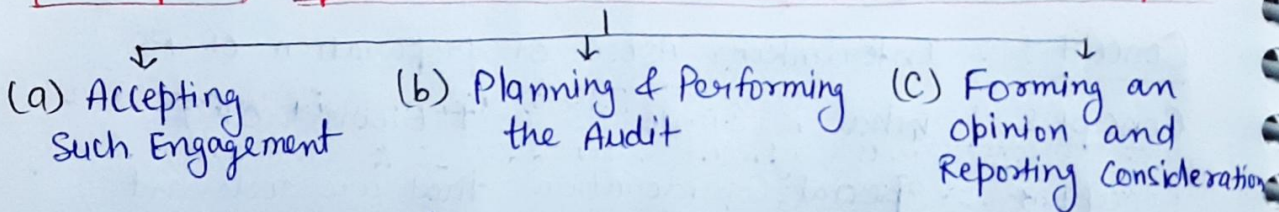
Eg. - Cash flow statement is a single FS.

Element of FS : It means an element, account or item of FS.

Eg. - Trade receivable or Cash & Bank Balance.

★ Both of these includes the related notes ordinarily comprising a summary of significant accounting policies & other explanatory info. relevant to FS or its element.

Concept 3 Special Considerations that are relevant as per SAS 805



(a) Considerations when Accepting Such Engagement

→ SA 200 requires auditor to comply with all relevant SAs, irrespective of whether auditor is also engaged in audit of complete set of FS. → If NOT Engaged, then auditor shall determine whether audit of single FS or element according to SA, are practicable.

SA 200 requires the auditor to comply with relevant ethical requirements.

→ If auditor of complete set of FS is not engaged to do audit of specific element

↓
Auditor may face few practical difficulties

↓
Compliance of relevant SAs may not be practicable.

↓
Auditor do not have same understanding of Entity's internal control.

↓
Auditor does not have Audit Evidence about general quality of Accounting records & other Accounting info.

Accordingly, Auditor may need further Evidence to corroborate audit Evidence acquired from the Accounting records.

→ In case of audit of specific element of FS, certain SAs require audit work that may be disproportionate to element being audited. (अगर उस Element में 1 ही SA लाग रहा हो but उसके लिए others SA, की requirement भी पूरी करनी पड़ सकती है।)

→ SA 210 requires auditor to determine acceptability of FRF applied in preparation of FS.

This audit shall include whether application of FRF will result in presentation that provides adequate disclosures to enable intended users to understand info. in FS.

FS may be prepared as per applicable FRF established by authorised or recognised std. setting org. & this FRF provides adequate disclosures. (अगर FRF के according FS prepare करने हैं जो adequate disclosure present करते हैं & किसी authorised org. ने establish किया हो।)

(b) Considerations when planning & performing audit.

→ In planning & performing audit, auditor shall adapt all SAs relevant as necessary in circumstance of Engagement. (Eg. - written representation as per SA 580 for specific item)

→ Auditor may be able to use audit Evidence obtained in audit of complete set of FS.

→ Materiality for single FS or element may be lower as compared to complete set of FS. (individually कुछ item कम impact देते हैं FS में)

→ Auditor may also need to perform procedures on interrelated items. (stock की Audit करते time Debtor, creditor की भी audit करनी पड़ सकती है।)

(C) Forming an opinion & Reporting Considerations

★ SA 210 requires that Expected form of any report issued by auditor should be included in terms of Eng.

★ Form of opinion to be expressed by auditor depends on applicable FRF and Laws & Regulations.

In Accordance with SA 700 (Revised)

Expressing unmodified opinion on Complete set of FS with Fair presentation framework

Use one of the following phrases:

i) FS present fairly in all material respect in accordance with FRF

or

ii) FS give true & fair view in accordance with FRF.

Expressing unmodified opinion on Complete set of FS with Compliance framework

Use the following phrase:

FS are prepared in all material respect with applicable FRF.

★ In case of single FS or of Element, the applicable FRF may not explicitly address presentation of FS or element. The auditor therefore, considers whether Expected form of opinion is appropriate with applicable FRF.

★ Factor that affect auditor's Consideration to use phrases "Presents fairly in all material respect" [or] "gives true & fair view"

- Whether applicable FRF is Explicitly or implicitly restricted to preparation of Complete set of FS.

- Whether single FS or specific Element of FS will :

- Comply fully with req. of framework & presentation of FS or Element.

- Provide disclosures if necessary to achieve fair presentation.

★ The auditor's decision as to Expected form of opinion is a matter of professional judgement.

★ When forming an opinion and reporting on single FS or specific Element, the auditor shall apply the requirements in Revised SA 700, adapted as necessary in Circumstances of Engagement. (SA 700 of Requirement apply $\frac{5}{20}$ of 1)

★ If auditor undertakes an Eng. to report both single FS and Complete set of FS, Auditor shall Express a separate Opinion for Each Eng.

Audit report of both FS may be published together.

↓
Ask Mgt. to clearly differentiate both FS.

↓
Auditor shall not issue the auditor's report until satisfied with differentiation.

★ If auditor has opinion Unmodified/Modified/Qualified on Complete set of FS report include EOM/OM Para

↓
Auditor shall determine its effect on single FS or specific Element of FS and if deemed appropriate, then he shall issue modified opinion or include EOM/OM para.

★ If auditor Express an adverse or disclaimer opinion on Complete set of FS

↓
Revised SA 705 doesn't permit to issue Unmodified opinion on single FS or specific Element.

This is bcoz unmodified opinion would contradict adverse or disclaimer opinion.

Exception: If auditor concludes that it is necessary to Express Unmodified opinion on single FS & to Express adverse or ~~dis~~ disclaimer opinion on Complete set of FS, then auditor shall only do so if:

- (a) Not prohibited by law (b) Specific Element doesn't constitute major portion.
(c) Report on single FS is not published together with adverse / disclaimer report.

Concept 4 / Examples of specific Elements, AIC, or items of FS

- 1) AIC receivable 2) Inventory 3) Allowance for doubtful AIC receivable
4) Schedule of externally managed Assets & income of Pvt. Pension Plan.
5) Schedule of Net tangible Assets 6) Schedule of disbursement of lease Property

SA 810 : Engagements to Report on Summary FS (SFS)

- Concept 1 : What do Summary Fin. statement (SFS) reflect
- Concept 2 : Engagement Acceptance
- Concept 3 : Nature of Procedures to be Performed by Auditor
- Concept 4 : Form of opinion
- Concept 5 : Auditor's Report on SFS
- Concept 6 : Element of Audit Report
 → Reporting
 → Special Considerations
- Concept 7 : Restriction on Distribution or use or Alerting the readers to the basis of accounting

Concept 1 What do SFS reflect??

SA 810 deals with auditor's responsibility when undertaking an Eng. to report on SFS derived from FS audited by same auditor.

SFS reflect historical fin. info. that is derived from FS, but that contains less detail than the FS, while still providing structured representation.

Concept 2 Engagement Acceptance (it is consideration of accepting the Eng. like SA 800 & 805)

Auditor shall ordinarily accept Eng. to report on SFS when auditor has been Engaged to conduct an audit of FS from which SFS derived.

If auditor has not audited that FS from which SFS derived then auditor shall not have necessary knowledge to discharge his responsibilities related to SFS.

Before accepting an Eng. to report on SFS, Auditor shall :

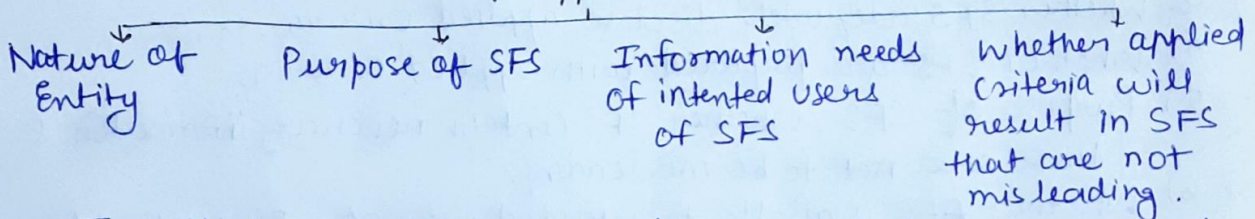
- (a) Determine whether applied criteria are acceptable.
- (b) Obtain agreement of Mgt. that it acknowledges & understand its responsibility.
- (c) Agree with Mgt. on form of opinion to be expressed on SFS.

(a) Determine whether the applied criteria are acceptable

→ Applied criteria refer to criteria applied by mgt. in preparation of SFS and Mgt. is responsible for determination of info. that needs to be reflected in SFS so that they are consistent in all material respect or they represent fair summary of Audited FS (AFS).

→ ~~So~~ SFS by nature contain aggregated info. & limited disclosures. There is high risk that it may not contain necessary info. So as not to be misleading in circumstances. (Mgt. का मतलब है कि कौनसी info. SFS में reflect होती जाएगी नहीं तो नहीं fair summary reflect करे। SFS का summary है सो नहीं high risk है कि कोई imp. info. consider करना रहे जाए & वो misleading हो जाए।)

→ factors affecting auditor's determination of Acceptability of applied criteria

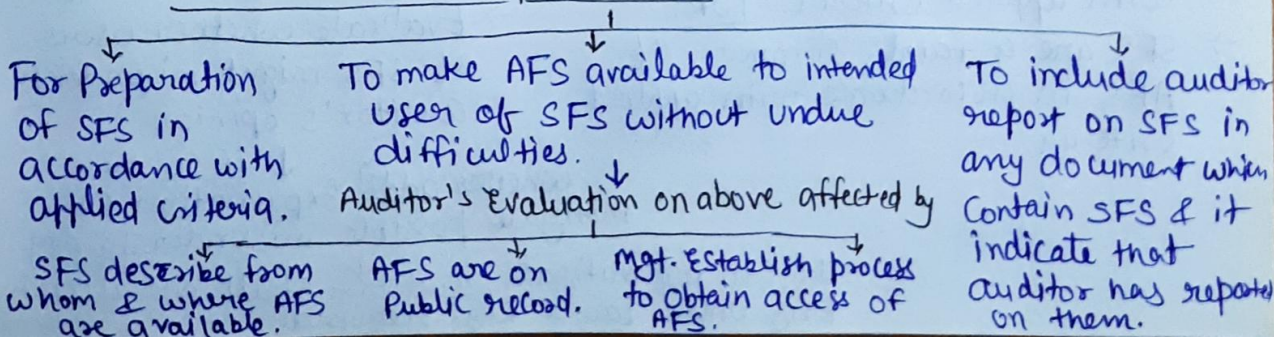


→ The criteria may be established by authorised or recognised std. setting orgⁿ or law & regulation. Where established criteria do not exist, then Mgt. develope.

→ If applied criteria are unacceptable or auditor is unable to obtain agreement of Mgt. then auditor shall not accept Engagement.

→ कोई Eng. law & Reg. के according conduct होता है तो Auditor उसी report में indicate करेगा कि ये SA के according नहीं है।

(b) Obtain the agreement of Mgt. that it acknowledges and understands its responsibilities



(C) Agree with mgt. on the form of opinion to be Expressed on SFS.

Concept 3 | Nature of Procedures Performed by Auditor

(It is Consideration of Planning & Performing Audit like SA 800, 805)

The auditor shall perform following procedures :-

Evaluate (6 things)

- 1) Whether SFS adequately disclose their summarised nature & identity.
- 2) Whether they describe clearly:
 - Where AFS are available.
 - Need ~~to~~ not to available AFS to intended user of SFS as per law & reg.
- 3) Whether SFS adequately disclose applied criteria.
- 4) Whether SFS are prepared with applied criteria.
- 5) Purpose of SFS, whether SFS contain necessary information & these are not to be misleading.
- 6) Whether AFS available to intended user of SFS without undue difficulties unless law & reg. provides that need not to be made available AFS.

Compare (1 thing)

Compare SFS with info. in AFS to determine whether SFS agree with or can be re-calculated from info. in AFS.

Concept 4 | Form of opinion

When auditor has concluded that unmodified opinion on SFS

Not required by Law & Regulation

- Auditor's opinion shall use one of following phrases:
 - SFS are consistent in all material respect with AFS in accordance with applied criteria. **[OR]**
 - SFS are a fairly summary of AFS in accordance with applied criteria.

If Law & Reg. describe wording

- then auditor shall:
- Apply procedures discussed in Concept 3 & other proc. to Express prescrible opinion.
 - Evaluate whether users of SFS might misunderstand auditor's opinion

↓ if so, they
whether add'l explanation can mitigate possible misunderstanding.

If can not mitigate, auditor shall not accept Eng. unless law & reg. required.

Concept 5 Auditor's Report on SFS

- 1) Title : Clearly indicating it as report of independent auditor.
- 2) Addressee : If addressee is not same as AFS, auditor shall evaluate appropriateness of using different addressee. Factor affecting appropriateness include - Terms of Eng., Nature of Entity & purpose of SFS.
- 3) Introductory Paragraph :
 - (i) Identifies SFS and it include in any other document then auditor may consider identifying page no. that helps readers to identify SFS.
 - (ii) Identifies AFS.
 - (iii) Refers to auditor's report on AFS, date of report, unmodified opinion on AFS.
 - (iv) If date of report on SFS is later than AFS, it states that SFS and AFS do not reflect subsequent event effect to date of report on AFS.
 - (v) A statement indicating that SFS does not contain all disclosures which is in AFS and reading SFS is not substitute of reading AFS.
- 4) Management Responsibility : Description of Mgt. responsibility for preparation of SFS in accordance with applied criteria.
- 5) Auditor's Responsibility : Statement of responsibility for expressing opinion on SFS based on procedures required by this SA.
- 6) A Paragraph clearly expressing an opinion
- 7) Signature : Auditor's signature, firm regⁿ no., membership no., UDIN.
- 8) Place of signature
- 9) Date of Audit report : Date on audit report of SFS not Earlier than

↓
Date of obtaining SAAE by auditor.

↓
Date of auditor's report on AFS.

Concept 6 Element of Audit Report

★ Reporting : Modifications to opinion, EOM or OM in auditor's report on AFS

* When auditor's report on AFS contains Qualified / Modified Opinion, an EOM or OM paragraph

Auditor is satisfied that SFS are consistent in all material respect, a fair summary of AFS, then auditor's report on SFS also contain following:

- State audit report on AFS
- Describe
 - Basis for Qualified report, EOM or OM Para.
 - Effect thereof on SFS.

If SFS are not consistent in all material respect & not a fair summary of AFS

[AND]

Mgt. does not agree to make necessary changes

↓

Auditor shall express an Adverse opinion on SFS.

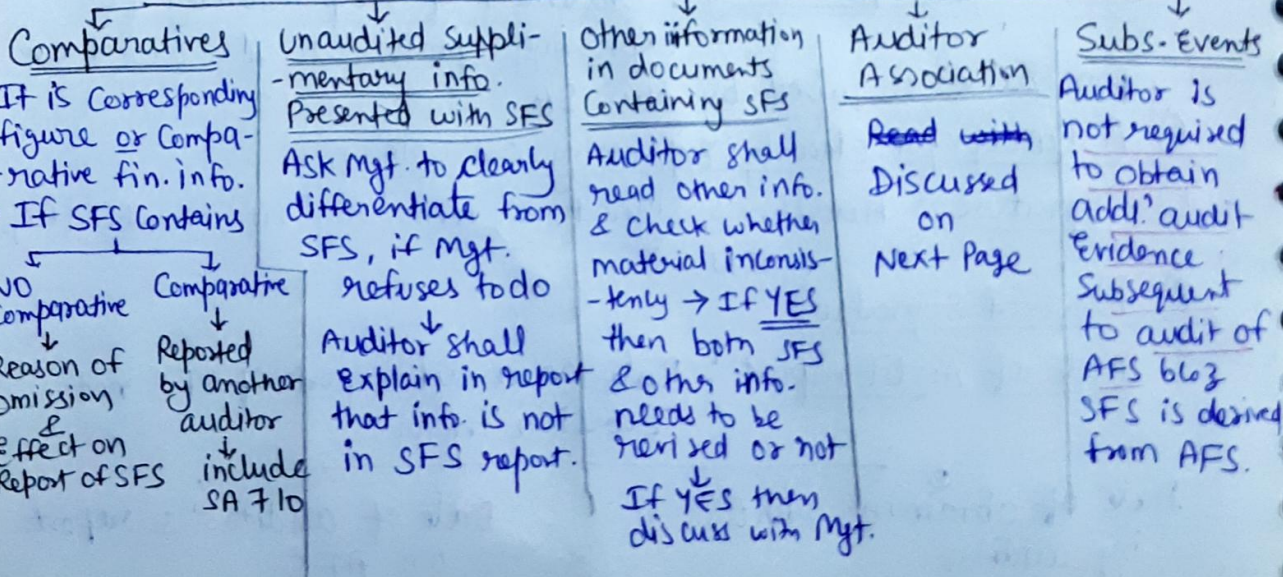
* When auditor's report on AFS contains Adverse / Disclaimer Opinion, Auditor's report on summary fin-stat. shall additionally

State Auditor's report of AFS which contains Adverse / Disclaimer opinion.

Describe the basis for that opinion.

State that it is inappropriateness to express an opinion on SFS.

★ Special Consideration



Auditor Association

★ अगर auditor को पता चले कि Entity किसी document में SFS को include करने का Plan कर रही है But SFS की audit report को include नहीं करना चाहिए तो Auditor shall request Mgt. to include auditor's report in that document.
If Mgt. does not do so → Auditor shall take appropriate actions.

★ अगर auditor Entity के FS की audit में Engage हो But SFS की audit में Engage न हो But Entity plan कर रही है to make statement that SFS ~~की audit~~ ~~में~~ audited FS of Entity से derive हुआ है तो auditor shall be satisfied that :

- Reference to auditor is made in context of auditor's report on AFS (and)
- Statement does not give the impression that auditor has reported on SFS.

If (a) or (b) are not met, auditor Mgt. से request करेगा to change the statement & if Mgt. does not change then auditor shall take appropriate actions.

(जो काम उसने किया वो include करें & जो नहीं किया वो include नहीं करें।)

Concept 7 Restrictions on Distribution or Use or Alerting Readers to basis of Accounting

When distribution or use of auditor's report on AFS is restricted or alert reader that AFS are prepared in accordance with special purpose framework, then the auditor shall include a similar restriction or alert in auditor's report on SFS.

(जो Restriction AFS में है वो SFS में भी लगाना पड़ेगा।)