Ch 08 PARAM

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08 Specialised Areas

Part 1- SA 800

800 → Special Purpose FST → Audit → Special Considerations → Mgt → Auditor
805 → Single FST, Specific Element, Specific Item
810 → Summary FST

QNO 800.100 | **Meaning of Special purpose framework** | **New Course – (SM23)**
TITANIUM CNO-- SA800.040

SA 800 deals with special considerations applicable in respect of audit of financial statements prepared in accordance with special purpose framework. Explain, by giving examples, meaning of special purpose framework.

Answer

What is Special Purpose framework?
Definition: SA 800 defines special purpose framework as a financial reporting framework designed to meet the financial information needs of specific users.
Fair Presentation or Compliance Framework: The financial reporting framework may be a fair presentation framework or a compliance framework.
Determination of Form and Content: The requirements of the applicable financial reporting framework determine the form and content of the financial statements. These requirements also dictate what constitutes a complete set of financial statements.
Examples of Special purpose frameworks are: -
(Shortcut: RCC)
Financial Reporting Provisions by Regulator: Another example is the financial reporting provisions established by a regulator to meet the requirements of that regulator.
Financial Reporting Provisions of a Contract: The financial reporting provisions of a contract, such as a bond indenture, a loan agreement, or a project grant, also fall under this category.
Cash basis accounting for Creditors: Examples include the cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors.

QNO 800.200 | **Paragraph to Avoid Misuse** | **New Course – (SM23)**
TITANIUM CNO-- SA800.100

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.

Answer

1. **SA 800:** Reference to SA 800, its full name & its applicable in the given scenario.
2. **Concept:** Alerting Users of Audit Report & Restriction on Distribution & Use of Audit Report

Usage other than intended: The special purpose financial statements may be used for purposes other than those for which they were intended. For example, a regulator may require certain entities to place the special purpose financial statements on public record.
Alerting Users: To avoid misunderstandings, the auditor alerts users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework. Therefore, the alerted financial statements may not be suitable for another purpose

Restriction on Distribution or Use
Restriction on Distribution: In addition to the alert required as discussed above, 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.
Expansion of Alert Paragraph: In these circumstances, the paragraph alerting the readers may be expanded to include these other matters, and the heading modified accordingly.

3. **Case Discussion:** Discuss Case.
4. **Conclusion:** Draft Paragraph

Basis of Accounting and Restriction on Distribution and Use Without modifying our opinion, we draw attention to Note A to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the company to comply 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 X Ltd. and Y Ltd. and should not be distributed to or used by parties other than X Ltd. And Y Ltd.

QNO 800.300 | **Signing multiple Reports** | **New Course – (SM23)**
TITANIUM CNO-- Unique

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

Answer

1. **SA 800 & SA 706:** Reference to SA 800 & SA 706, its full name & its applicable in the given scenario.
2. **Concept: SA 800** - There is no restriction on auditor's other than Auditors of General purpose FST framework to accept audit of special purpose FST.
SA 706 - Reporting on more than one set of financial - statements An entity may prepare one set of financial statements in accordance with a general purpose framework (e.g., the national framework) and another set of financial statements in accordance with another general purpose framework (e.g., International Financial Reporting Standards), and engage the auditor to report on both sets of financial statements. If the auditor has determined that the frameworks are acceptable in the respective circumstances, the auditor may include an Other Matter paragraph in the auditor's report, referring to the fact that another set of financial statements has been prepared by the same entity in accordance with another general-purpose framework and that the auditor has issued a report on those financial statements.
3. **Case Discussion:** Discuss Case.
4. **Conclusion:** She can accept such audit & disclose in other Matter Paragraph.

Part 2 - SA 805

QNO 805.100 | **Challenges in Auditing Specific Element of Financial Statement** | **New Course – (SM23)**
TITANIUM CNO-- SA 805.040

CA G is offered appointment for audit of trade payables of financial statements of a company. However, financial statements 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.

Answer

1. **SA 805:** Reference to SA 805, its full name & its applicable in the given scenario.
2. **Concept:** Considerations When Accepting Such Engagement
2. Challenges when the auditor is not also engaged to audit the entity's complete set of financial statements Practicability of Audit in Accordance with SAs: If the auditor is not also engaged to audit the entity's complete set of financial statements, the auditor shall determine whether the audit of a single financial statement or of a specific element of those financial statements in accordance with SAs is practicable.
2A. Understanding of the Entity and Its Environment: In such cases, the auditor often does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of financial statements.
2B. General quality of the accounting records or other accounting information: The auditor also does not have audit evidence about the general quality of the accounting records or other accounting information that would be acquired in an audit of the entity's complete set of financial statements. Accordingly, the auditor may need further evidence to corroborate audit evidence acquired from the accounting records.
2C. Disproportionate Audit Work for Specific Element: In the case of an audit of a specific element of a financial statement, certain SAs require audit work that may be disproportionate to the element being audited. For example, although the requirements of SA 570 are likely to be relevant in the circumstances of an audit of a schedule of accounts receivable, complying with those requirements may not be practicable because of the audit effort required.
3. Not practical: If the auditor concludes that an audit of a single financial statement or of a specific element of a financial statement in accordance with SAs may not be practicable, the auditor may discuss with management whether another type of engagement might be more practicable.
3. **Case Discussion:** Discuss Case.
4. **Conclusion:** After Evaluating above 3 points Auditor will have to decide is it practical. If yes accept assignment or else discuss with management for another type of engagement is suggested.

QNO 805.200 | **Impact of Modification on Complete Set on Report of Specific Element** | **New Course – (SM23)**
TITANIUM CNO-- SA 805.100

CA P is auditor of a company responsible for auditing complete set of financial statements. He intends to express adverse opinion on complete set of financial statements considering conclusions drawn by him during course of audit. He is also auditing trade receivables of company for the same period in a separate engagement. Can he express unmodified opinion in respect of trade receivables? If so, discuss those circumstances.

Answer

1. **SA 810:** Reference to SA 810, its full name & its applicable in the given scenario.
2. **Concept:** (CNO SA- 805.100) Forming an Opinion and Reporting Considerations (Unmodified Opinion on Specific Element Permitted)

Unmodified Opinion on Specific Element Permitted: If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole but considers it appropriate to express an unmodified opinion on a specific element included in those financial statements, the auditor shall only do so if certain conditions are met.
a) The auditor is not prohibited by law or regulation from doing so;
b) That opinion is expressed in an auditor's report that is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion; and

c) The specific element does not constitute a major portion of the entity's complete set of financial statements
3. **Case Discussion:** Discuss Case.
4. **Conclusion:** He can express an unmodified opinion on trade receivables if above conditions are satisfied.

QNO 805.300 | **Doing different audits** | **New Course – (SM23)**
TITANIUM CNO-- ~~Unique~~ 805.020

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

Answer

1. **SA 800 & 805:** Reference to SA 800 & 805, its full name & its applicable in the given scenario.
2. **Concept:** ~~SA 800: As per SA 800 there are no restriction on auditor of general purpose FST accepting audit of special purpose FST. Single FST can be as per general purpose or special purpose framework.~~
~~SA 805: As per SA 805 there is no restriction on auditor of complete set accepting audit of single FST, element, accounts or items of FST.~~
~~Infact it is good thing as per both SAs.~~
3. **Case Discussion:** Discuss Case.
4. **Conclusion:** In above case auditor is doing audit element of FST prepared as per special purpose framework so he needs to ensure both SA 800 & SA 805 should be complied with.

Single FST
Specific Element } → can be as per special purpose frame work

Part 03 SA 810

QNO 810.100 | **Factors affecting acceptability of the applied criteria** | **New Course – (SM23)**
TITANIUM CNO-- SA 810.040

List out few factors affecting auditor's determination of the acceptability of the applied criteria before accepting audit of summary financial statements.

Answer

Concept:
Determine whether the applied criteria are acceptable
1. Applied Criteria: Applied criteria refer to the criteria applied by management in the preparation of the summary financial statements. Management is responsible for the determination of the information that needs to be reflected in the summary financial statements so that they are consistent, in all material respects, with or represent a fair summary of the audited financial statements.
2. Risk in Summary Financial Statements: Because summary financial statements, by their nature contain aggregated information and limited disclosure, there is an increased risk that they may not contain the information necessary so as not to be misleading in the circumstances. This risk increases when established criteria for the preparation of summary financial statements do not exist.
3A. Factors Affecting Auditor's Determination: (Shortcut: NPI Not misleading)
Factors affecting the auditor's determination of the acceptability of the applied criteria include the **N**ature of the entity, the **P**urpose of the summary financial statements, the Information needs of the intended users of the summary financial statements, and whether the applied criteria will result in summary financial statements that are **N**ot misleading in the circumstances.
3B. Appropriate Title (So that not Misleading): Adequate disclosure of the summarised nature of the summary financial statements and the identity of the audited financial statements, may be provided by a title such as
"Summary financial statements prepared from the audited financial statements for the year ended March 31, 20XX."

QNO 810.200 | **Reporting on Subsequent Events in Case of Summary Financial Statements** | **New Course – (SM23)**
TITANIUM CNO-- SA 810.080

CA Madhur is auditor of a company and has issued audit report dated 15th June of a particular year. The audit report on summary financial statements derived from such audited financial statements is dated 15th July of that particular year. Discuss whether there exists any additional reporting responsibility for auditor in such a situation in respect of audit report on summary financial statements.

Answer

The audit report on summary financial statements derived from audited financial statements is dated 15th July of that particular year. However, the audit report on audited financial statements is dated 15th June of that year.

In the above situation, the auditor's report on summary financial statements should state that the summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements.

QNO 810.300 | **Denial Of Opinion** | **New Course – (SM23)**
TITANIUM CNO-- SA 810.100

CA Y is auditor of a company. He has expressed adverse opinion on audited financial statements. What additional points he has to keep in mind while expressing opinion on summary financial statements derived from such audited financial statements?

Answer

Adverse or a disclaimer of opinion
1. Situation: When the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor's report on the summary financial statements shall, additionally:
2A. State Situation: When the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor's report on the summary financial statements shall state that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer

of opinion.
2B. Describe: Describe the basis for that adverse opinion or disclaimer of opinion.
2C. Inappropriateness to Express Opinion: State that, as a result of the adverse opinion or disclaimer of opinion, it is inappropriate to express an opinion on the summary financial statements. **(Denial Of Opinion)**

QNO 810.400 | **Impact Of Qualified Opinion on Complete Set on Report on Summary Financial Statement** | **New Course – (SM23)**
TITANIUM CNO-- SA 810.100

Consider that the audit report on financial statements issued by CA Madhur for above said company contains qualified opinion. Can he issue an unmodified opinion on summary financial statements derived from audited financial statements? Discuss.

Answer

1. **SA 810:** Reference to SA 810, its full name & its applicable in the given scenario.
2. **Concept:** (CNO SA- 810.100) Modifications to the Opinion, EMP or OMP in the Auditor's Report on the Audited Financial Statements
1. Situation: When the auditor's report on the audited financial statements contains a qualified opinion, an Emphasis of Matter paragraph, or an Other Matter paragraph, but the auditor is satisfied that the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria.
2A. State Situation: The auditor's report on the summary financial statements shall state that the auditor's report on the audited financial statements contains a qualified opinion, an Emphasis of Matter paragraph, or an Other Matter paragraph.
2B. Describe: Describe the basis for the qualified opinion on the audited financial statements, and that qualified opinion; or the Emphasis of Matter or the Other Matter paragraph in the auditor's report on the audited financial statements.
2C. Effect on Summary Financial Statements: Describe the effect thereof on the summary financial statements, if any.
3. **Case Discussion:** Discuss Case.
4. **Conclusion:** CA Madhur can report on summary as discussed above.