

## 8. “Specialised Areas”

### PART- I DESCRIPTIVE QUESTIONS

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

**Q.1.** There are certain its statement in the light of mandatory requirements of matters that are to be emphasised in auditor's Report when the Audit Report is on Financial Statements prepared in accordance with special purpose Framework. [Nov. 18 (5 Marks)]

**Ans:** **Circumstances in which Emphasis of Matter Paragraph in Auditor's Report is mandated in case of Financial Statements prepared in accordance with a Special Purpose Framework:**

- As per SA 706, “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent. Auditor's Report” and/or SA 800, “Special Considerations Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks”, the auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose frame work and that, as a result, the financial statements may not be suitable for another purpose.
- The auditor shall include this paragraph under an appropriate heading. 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. To avoid misunderstandings, the auditor alerts users of the auditor's report that the financial statements are prepared in accordance with a special purpose frame work and, therefore, may not be suitable for another purpose.

**Restriction on Distribution or Use:**

- In addition to the alert required 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 of the particular jurisdiction, this may be achieved by restricting the distribution or use of the auditor's report. In these circumstances, the emphasis of matter paragraph given above may be expanded to include these other matters, and the heading may be modified accordingly.

**Q.2.** The financial statements of TC & Co. have been prepared by management of an entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework) to comply with provisions of the contract. Based on the contract, management does not have a choice of financial reporting frameworks. As an auditor what considerations would be undertaken while planning and performing audit?

**Ans:** **Consideration while planning and performing audit of Special purpose financial statements:**

As per SA 800 “Special Considerations - Audit of Financial Statements prepared in accordance with Special Purpose frameworks” auditor should consider the following while planning and performing audit of financial statements prepared in accordance with special purpose framework:

- In planning and performing an audit of special purpose F.S., auditor shall determine whether **application of the SAs** requires special consideration in the circumstances of the engagement. For example, in SA 320, judgments about matters that are material to users of the F.S. 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 F.S., however, those judgments are based on a consideration of the financial information needs of the intended users.
- While determining the application of SA, auditor is required to consider the requirement of SA 200 **on applicability of SAs**. SA 200 requires the auditor to comply with
  - (a) relevant ethical requirements, and
  - (b) all SAs relevant to the audit.
 Auditor is required to comply with each requirement of an SA unless entire SA is not relevant or the requirement is not relevant because it is conditional and the condition does not exist.
- In the case of special purpose F.S., such as those prepared in accordance with the requirements of a In 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 F.S.
- In the case of special purpose F.S., persons responsible for the oversight of its preparation may not be the same as TCWG responsible for the oversight of the preparation of general purpose F.S. In such cases, requirements of SA 260 may not be relevant to the audit of the special purpose F.S.

**Q.3.** 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.

**Ans: Meaning of Special Purpose Framework:**

SA 800 “Special Considerations – Audit of F.S. Prepared in accordance with Special Purpose Frameworks” defines special purpose framework as a FRF designed to meet the financial information needs of specific users. The FRF may be a fair presentation framework or a compliance framework. The requirements of the applicable FRF determine the form and content of the financial statements and what constitutes a complete set of financial statements.

**Examples of Special purpose frameworks:**

- (i) The cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors.
- (ii) The financial reporting provisions established by a regulator to meet the requirements of that regulator.
- (iii) The financial reporting provisions of a contract, such as a bond indenture, a loan agreement, or a project grant.

## **8.2 - SA 805 “Special Considerations - Audits of Single F.S. and Specific Elements, Accounts or Items of a F.S.”**

**Q.4.** 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.

**Ans: Circumstances in which unmodified opinion can be expressed on a Specific Element:**

As per SA 805 “Special Considerations - Audits of Single F.S. and Specific Elements, Accounts or Items of a F.S.”, if auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of F.S. but, in the context of a separate audit of a Specific Element, auditor nevertheless considers it appropriate to express an unmodified opinion on that element, the auditor shall only do so if:

- (a) Not prohibited by Law and Regulation;
- (b) Audit report on Specific Element is not published together with audit report on complete F.S; and
- (c) Specific element does not constitute a major portion of entity's complete F.S.

### **8.3 - SA 810 “Engagements to Report on Summary Financial Statements (SFS)”**

**Q.5.** List out few factors affecting auditor's determination of the acceptability of the applied criteria before accepting audit of summary financial statements.

**Ans: Factors affecting the auditor's determination of the acceptability of the applied criteria:**

As per SA 810 “Engagements to Report on Summary Financial Statements”, before accepting an engagement to report on summary financial statements, the auditor shall determine whether the applied criteria are acceptable. Applied criteria refer to the criteria applied by management in the preparation of the summary financial statements. If the auditor concludes that the applied criteria are unacceptable, auditor shall not accept the engagement to report on the summary financial statements, unless required by law or regulation to do so.

Factors that may affect auditor's determination of the acceptability of the applied criteria before accepting audit of summary financial statements includes the following:

- (a) Nature of the entity
- (b) Purpose of the Summary F.S.
- (c) Information needs of the intended users of the Summary F.S.; and
- (d) Whether the applied criteria will result in Summary F.S. that are not misleading in the circumstances.

**Q.6.** The management of Zuchi Ltd. has prepared its summary financial statements for the year 2023-24 to be provided to its investors. Consequently, the company wants to appoint you for conducting audit of such summary financial statements. Mention the factors you would consider before accepting such engagement to report on summary financial statements.

**Ans: Factors to be considered before accepting engagement to report on Summary Financial statements:**

As per SA 810 “Engagements to Report on Summary Financial Statements” the auditor shall, ordinarily, accept an engagement to report on summary financial statements in accordance with this SA only when the auditor has been engaged to conduct an audit in accordance with SAs of the financial statements from which the summary financial statements are derived. Before accepting Engagement, auditor shall:

- (1) Determine whether the applied criteria are acceptable.
- (2) Obtain the agreement of management that acknowledges and understands its responsibilities:
  - For the preparation of Summary F.S. in accordance with the applied criteria:
  - To make the audited FS available to the intended users of Summary F.S. without undue difficulty; and
  - To include the auditor's report on Summary F.S. in any document that contains the Summary F.S. and that indicates that the auditor has reported on them.
- (3) Agree with management the form of opinion to be expressed on the summary financial statement.

**Q.7.** The management of CSITA Ltd. has prepared its summary financial statements for the year 2023-24 to be provided to its investors. Consequently, the company wants to appoint you for conducting audit of summary financial statements. What are the procedures that you will perform and consider necessary as the basis for forming an opinion on the summary financial statements? [MTP-April 18]

**Ans: Procedures to be performed on Summary Financial Statements:**

As per SA 810 “Engagements to Report on Summary Financial Statements” the auditor shall perform the following procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements:

**A. EVALUATE:**

- (a) Whether Summary F.S. adequately:
  - Disclose their summarised nature; &
  - Identify the audited FS.
- (b) If Summary F.S. are not accompanied by audited FS, whether they clearly describe:
  - From whom or where audited FS are available; OR
  - Law & Regulation that specifies that audited F.S. need not be made available to intended users of Summary F.S. & establishes criteria for preparation of Summary F.S.
- (c) Whether Summary F.S. adequately disclose the applied criteria.
- (d) Whether Summary F.S. are prepared in accordance with applied criteria.
- (e) Whether Summary F.S. contain necessary info & are appropriately aggregated so as not to be misleading.
- (f) Whether audited F.S. are available to intended users without undue difficulty.

**B. COMPARE:**

Summary F.S. with related information in audited F.S. to determine whether Summary FS agree with or can be re-calculated from related information in audited F.S.

**Q.8.** 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?

**Ans: Additional points to be kept in mind while expressing opinion on Summary F.S. derived from audited financial statements on which adverse opinion was expressed:**

As per SA 810 “Engagements to Report on Summary Financial Statements” when the auditor's report on the audited F.S. contains an adverse opinion, the auditor's report on the Summary F.S. shall, include the following:

- (1) Statement that auditor's report on audited F.S. contains adverse opinion;
- (2) Description of basis of adverse opinion; and
- (3) Statement that as a result of adverse opinion it is inappropriate to express an opinion on Summary F.S.

## PART- II MULTIPLE CHOICE QUESTIONS

1. If the auditor expresses an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole, what type of audit opinion the auditor may issue for single financial statement that forms part of those financial statements or on a specific element that forms part of those financial statements.
  - (I) Disclaimer of opinion
  - (II) Unmodified opinion
  - (III) Modified opinion
  - (IV) Adverse opinion
  - (a) Only I
  - (b) Only II
  - (c) Only IV
  - (d) I or III or IV
2. Distribution and use of the auditor's report on special purpose financial statements are:
  - (a) Not restricted
  - (b) Restricted
  - (c) Limited
  - (d) Confined
3. An interpretation is \_\_\_\_\_ when adoption of another reasonable interpretation would have produced a material difference in the information presented in the financial statements.
  - (a) Not significant
  - (b) Significant
  - (c) Material
  - (d) Non-material
4. In the case of an auditor's report on special purpose financial statements, the auditor's report shall also describe the \_\_\_\_\_ for which the financial statements are prepared.
  - (a) Objective
  - (b) Purpose
  - (c) Intend
  - (d) Applicable standard
5. Historical financial information that is derived from financial statements but that contains less detail than the financial statements, while still providing a structured representation consistent with that provided by the financial statements of the entity's economic resources or obligations at a point in time or the changes therein for a period of time is called:
  - (a) Summary Financial Statements
  - (b) Elements of Financial Statements
  - (c) Special Purpose Financial Statements
  - (d) General Purpose Financial Statements

6. Financial statements prepared in accordance with a special purpose framework may be the only financial statements an entity prepares. In such circumstances, those financial statements may be used by users other than those for whom the financial reporting framework is designed. Despite the broad distribution of the financial statements in those circumstances, the financial statements are still considered to be:
- (a) Applicable financial reporting framework
  - (b) General purpose financial statements
  - (c) Special purpose financial statements
  - (d) Regular purpose financial statements
7. In case the auditor does not accept the engagement to report on summary financial statements due to applied criteria being unacceptable or inability to obtain agreement of management, is he still required to accept and report on the summary financial statements?
- (a) Yes, if required by the intended users of the summary financial statements
  - (b) Yes, if required by those charged with governance
  - (c) Yes, if required by law or regulation
  - (d) No, he is not required to accept the engagement
8. Who is eligible to be appointed as the auditor for summary financial statements:
- (a) Chartered Accountant eligible to be appointed as auditor
  - (b) Auditor of the historical financial statements
  - (c) Any professional
  - (d) Any person

#### Answer Key

- 1. (d) I or III or IV
- 2. (b) Restricted
- 3. (b) Significant
- 4. (b) Purpose
- 5. (a) Summary Financial Statements
- 6. (c) Special purpose financial statements
- 7. (c) Yes, if required by law or regulation
- 8. (b) Auditor of the historical financial statements

**PART- III INTEGRATED CASE SCENARIO**

Given below is an extract of abridged financial statement of schemes of “Smart Investment Mutual Fund” The abridged financial statements have been derived from audited financial statement of the schemes of “Smart Investment Mutual Fund” as at 31<sup>st</sup> March 20XX and for year ended 31<sup>st</sup> March, 20XX.

**Abridged Balance sheet as at 31st March 20XX**

<b>(in Lacs)</b>		
<b>Liabilities</b>	<b>Smart investment equity and debt fund</b>	<b>Smart investment equity savings fund</b>
Unit Capital	20000.00	15000.00
Reserve and Surplus	160000.00	80000.00
Other current liabilities & provisions	100.00	100.00
<b>Total</b>	<b>180100.00</b>	<b>95100.00</b>
<b>Assets</b>		
Investments	170000.00	90000.00
Deposits	100.00	100.00
Other Current assets	10000.00	5000.00
<b>Total</b>	<b>180100.00</b>	<b>95100.00</b>

**Abridged revenue account for year ended 31st March 20XX**

<b>(in Lacs)</b>		
<b>Income</b>	<b>Smart investment equity and debt fund</b>	<b>Smart investment equity savings fund</b>
Income	34000.00	1000.00
Expenses and losses	3400.00	1500.00
Net realized gains	30600.00	(500.00)
Add: Change in unrealized appreciation in value of Investments	2000.00	700.00
<b>Net Surplus</b>	<b>32600.00</b>	<b>200.00</b>
Dividend appropriation	3000.00	50.00
<b>Retained Surplus</b>	<b>29600.00</b>	<b>150.00</b>

The abridged financial statements of the Schemes of the Fund have been prepared by Board of Trustees of Fund pursuant to SEBI regulations and in accordance with format prescribed by SEBI. Previous year figures have been ignored for purpose of case.

Unmodified opinion has been expressed by auditor in audited financial statements of the schemes of “Smart Investment Mutual Fund” as at 31<sup>st</sup> March 20XX and for year ended 31<sup>st</sup> March, 20XX.

Keeping in view above, answer the following questions:

- Q.1.** Given the above extract of bridged financial statements and description, which of the following statements is most appropriate?
- The auditor may presume that criteria applied by the Board of Trustees in the preparation of the abridged financial statements are acceptable.
  - The auditor cannot presume that criteria applied by the Board of Trustees in preparation of abridged financial statements are acceptable.
  - The abridged financial statements have been prepared by the Board of Trustees. The auditor cannot ordinarily accept criteria applied by them for the preparation of such

abridged financial statements before detailed evaluation.

- (d) The auditor is duty bound to accept the criteria applied by the Board of Trustees in the preparation of abridged financial statements.

**Q.2.** Which of the following statements in reference to abridged financial statements is not in accordance with the requirements of SA 810?

- (a) The notes to accounts should specifically disclose that these abridged financial statements have been derived from audited financial statements.
- (b) The Board of Trustees has disclosed that audited financial statements are available on the website of the company.
- (c) It should be stated in the auditor's report that abridged financial statements have been compared with the related information in the audited financial statements to determine whether the abridged financial statements agree with or can be recalculated from the related information in the audited financial statements.
- (d) It should be stated in auditor's report that reading the abridged financial statements is not a substitute for reading the audited financial statements of the Schemes of the Fund.

**Q.3.** Which of the following paras is most appropriate to be included under heading "Auditor's responsibility" in the auditor's report?

- (a) Our responsibility is to express an opinion on the abridged financial statements based on our procedures, which were conducted in accordance with Standards on Auditing issued by the Institute of Chartered Accountants of India.
- (b) Our responsibility is to express an opinion on the Abridged financial statements based on our procedures, which were conducted in accordance with Standard on Auditing (SA) 810, "Engagements to Report on Summary Financial Statements" issued by the Institute of Chartered Accountants of India.
- (c) Our responsibility is to express an opinion on the Abridged financial statements based on our procedures, which were conducted in accordance with Standards on Auditing adapted in circumstances including (SA) 810, "Engagements to Report on Summary Financial Statements" issued by the Institute of Chartered Accountants of India.
- (d) Our responsibility is to express an opinion on the Abridged financial statements based on our procedures, which were conducted in accordance with SEBI regulations and Standards on Auditing adapted in circumstances including (SA) 810, "Engagements to Report on Summary Financial Statements" issued by the Institute of Chartered Accountants of India.

**Q.4.** Which of the following paras is most appropriate to be included under heading "Opinion" in auditor's report?

- (a) In our opinion, the abridged financial statements, derived from the audited financial statements of the Schemes of the Fund as at March 31, 20XX and for the year ended March 31, 20XX are a fair summary of those financial statements, and are in accordance with the accounting policies and standards specified in SEBI regulations and generally accepted accounting principles in India to the extent applicable.
- (b) In our opinion, the abridged financial statements, as at March 31, 20XX and for the year ended March 31, 20XX are a fair summary of those financial statements.
- (c) In our opinion, the abridged financial statements, derived from the audited financial statements of the Schemes of the Fund as at March 31, 20XX and for the year ended

March 31, 20XX are consistent with audited financial statements and are in accordance with the accounting policies and standards specified in SEBI regulations and generally accepted accounting principles in India to the extent applicable.

- (d) In our opinion, the abridged financial statements, derived from the audited financial statements of the Schemes of the Fund as at March 31, 20XX and for the year ended March 31, 20XX are consistent with audited financial statements.

**Q.5.** Which of the following is usually not an element of audit report on abridged financial statements in accordance with SA 8107?

- (a) Emphasis of matter paragraph.  
(b) Other matter paragraph.  
(c) Management's responsibility for abridged financial statements.  
(d) Key audit matters.

### Answer Key

1. (a) The auditor may presume that criteria applied by the Board of Trustees in the preparation of the abridged financial statements are acceptable.
2. (c) It should be stated in the auditor's report that abridged financial statements have been compared with the related information in the audited financial statements to determine whether the abridged financial statements agree with or can be recalculated from the related information in the audited financial statements.
3. (b) Our responsibility is to express an opinion on the Abridged financial statements based on our procedures, which were conducted in accordance with Standard on Auditing (SA) 810, "Engagements to Report on Summary Financial Statements" issued by the Institute of Chartered Accountants of India.
4. (a) In our opinion, the abridged financial statements, derived from the audited financial statements of the Schemes of the Fund as at March 31, 20XX and for the year ended March 31, 20XX are a fair summary of those financial statements, and are in accordance with the accounting policies and standards specified in SEBI regulations and generally accepted accounting principles in India to the extent applicable.
5. (d) Key audit matters.