

SA 800

Special Considerations: Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

Effective for Audits of financial statements for periods beginning on or after April 1, 2011

Overview of SA 800

- ❖ **Introduction**
 - Scope
 - Effective date
- ❖ **Objective**
- ❖ **Definitions**
- ❖ **Requirements & Application**
 - Considerations when accepting the engagement
 - Considerations when planning & performing the audit
 - Forming an opinion & reporting considerations

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*Engagement Standards***Scope of SA 800**

- ❖ Deals with special considerations in the application of SAs to audit of FS prepared in accordance with a special purpose framework.
- ❖ Written in the context of complete set of FS prepared in accordance with a special purpose framework.
- ❖ Does not override the requirements of the other SAs.
- ❖ May not deal with all special considerations relevant in the circumstances of the engagement.

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Auditor's Objective**Address appropriately considerations relevant to:**

- ❖ Engagement acceptance.
- ❖ Engagement planning & performance.
- ❖ Forming opinion & reporting on FS.

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Background Material for Audit Training Workshops and Seminars**Definitions****Special Purpose FS**

- ❖ FS prepared in accordance with special purpose framework:
 - It may be the only FS that entity prepares, FS may be used by users other than those designated under SPFRF.
 - Even then FS are considered to be prepared under SPFRF.

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Special Purpose Framework

- ❖ FRF designed to meet financial info needs of specific users:
 - Compliance / Fair presentation.
 - SPFRF based on GPFRF but not complying with all its requirements cannot be described as GPFRF.
- ❖ Related notes ordinarily comprise a summary of significant accounting policies and other explanatory info:
 - Applicable FRF determines the form and content of FS, and what constitutes a complete set of FS.

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- ❖ Examples of special purpose frameworks are:
 - The cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors;
 - The financial reporting provisions established by a regulator to meet the requirements of that regulator; or
 - The financial reporting provisions of a contract, such as a bond indenture, a loan agreement, or a project grant.

Engagement Acceptance - Considerations

- ❖ Obtain understanding of:
 - Purpose for which FS are prepared.
 - Intended users.
 - Steps taken by mgt to determine that applicable FRF is acceptable.

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- ❖ Financial information needs of the intended users are a key factor in determining the acceptability of the FRF applied in the preparation of the financial statements.
- ❖ Applicable FRF may encompass:
 - Financial reporting standards established by authorised or recognised organisation.
 - Some L & R may prescribe the FRF to be used by management. (See SA 210, para 18).
 - The financial reporting provisions of a contract, or sources. Acceptability of the financial reporting framework is determined by considering whether the framework exhibits attributes normally exhibited by acceptable financial reporting frameworks. (SA 210)

Planning & Performing an Audit – Considerations

- ❖ Determine whether the application of SAs require special considerations in circumstances of the engagement.

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- ❖ Refer SA 200 on applicability of SAs and absence of conditions requiring applicability of an SA.
- ❖ SA 320 re judgment re matters that are material to users of financial statements are based on consideration of common financial info needs of users as a group.
- ❖ SA 315 requires understanding of selection and application of accounting principles and policies. In case where accounts are prepared on the basis of provisions of a contract, auditor is required to obtain understanding of any significant interpretations of the contract.
- ❖ TCWG may not have a responsibility of overseeing the preparation of those financial statements in SFRF; for example, when the financial information is prepared solely for management's use. In such cases, the requirements of SA 260 may not be relevant to the audit of the SPFS, except when the auditor is also responsible for the audit of the entity's GPFS statements or, for example, has agreed with TCWG of the entity to communicate to them relevant matters identified during the audit of the SPFS.

Background Material for Audit Training Workshops and Seminars**Forming an Opinion & Reporting Considerations**❖ **Apply SA 700.**

Also:

- ❖ Describe the purpose for which FS are prepared & intended users.
- ❖ If mgt has a choice of FRFs in the preparation of FS:
 - Explanation of mgt's responsibility for the FS make reference to its responsibility for determining acceptability of applicable FRF.
- ❖ Evaluate whether FS adequately describe the FRF applied.
- ❖ Include Emphasis of Matter para to alert users re application of special purpose FRF:
 - FS may not be suitable for another purpose.

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- ❖ SA 700 requires the auditor to evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall evaluate whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based.

Restriction on Distribution or Use

- ❖ SPFS may be used for purposes other than those for which they were intended. Alert users by:
 - Considering it appropriate to indicate that the auditor's report is intended solely for the specific users.
 - Depending on the L & R, restrict the distribution or use of the auditor's report. Include these other matters, and the heading in AR.

SA 805

Special Considerations: Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

Effective for audits of single financial statements or of specific elements, accounts or items for periods beginning on or after April 1, 2011

Overview of SA 805

- ❖ **Introduction**
 - Scope
 - Effective date
- ❖ **Objective**
- ❖ **Definitions**
- ❖ **Requirements & Application**
 - Considerations when accepting the engagement
 - Considerations when planning & performing the audit
 - Forming an opinion and reporting considerations

SA 805

Background Material for Audit Training Workshops and Seminars

Scope

- ❖ SAs 100 – 700 series apply to audit of FS:
 - To be adopted as necessary in audit of other historical financial info.
- ❖ SA 805 deals with special considerations in application of these SAs to:
 - Audit of single financial statements (SFS).
 - Specific element/account/ item of FS (EFS).
- ❖ DOES NOT:
 - Apply to report of component auditor.
 - Override requirements of other SAs.
 - Deal with special considerations that may be relevant in circumstances of the engagement.

SA 805

- ❖ The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with a general or special purpose framework. If prepared in accordance with a special purpose framework, SA 800 also applies to the audit.
- ❖ **“Historical financial information” (SA 200)**
Information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
- ❖ **“Financial statements” (SA 200)**
A structured representation of historical financial information, including related notes, intended to communicate an entity’s economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a FRF. The term ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable FRF.
- ❖ Other historical financial information- a single financial statement or a specific element of a financial statement.
- ❖ A Reasonable assurance engagement other than an audit of historical financial information is performed in accordance with Proposed Standard on Assurance Engagements (SAE) 3000.

Examples of Specific Elements, Accounts or Items of a Financial Statement:

- ❖ Accounts receivable, allowance for doubtful accounts receivable, inventory, the liability for accrued benefits of a private pension plan, the recorded value of identified intangible assets, or the liability for “incurred but not reported” claims in an insurance portfolio, including related notes.
- ❖ A schedule of externally managed assets and income of a private pension plan, including related notes.
- ❖ A schedule of net tangible assets, including related notes.
- ❖ A schedule of disbursements in relation to a lease property, including explanatory notes.
- ❖ A schedule of profit participation or employee bonuses, including explanatory notes.

Auditor's Objective

- ❖ Address appropriately special considerations that are relevant to:
 - Acceptance of the engagement.
 - Planning & performance of that engagement.
 - Forming an opinion & reporting on SFS & EFS.

SA 805

Definitions

- ❖ **Element of a FS (EFS):**
 - Element/ account/ item of a FS.
- ❖ **Financial Reporting Standards.**
- ❖ **Single Financial Statements (SFS):**
 - Includes related notes.

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- ❖ **“Financial Reporting Standards”:**
 - Accounting Standards promulgated by the Accounting Standards Board (ASB) of ICAI,
 - Accounting Standards, notified by the Central Government by publishing the same as the Companies (Accounting Standards) Rules, 2006,
 - Accounting Standards for Local Bodies promulgated by the Committee on Accounting Standards for Local Bodies (CASLB) of ICAI,
as may be applicable
- ❖ **A single financial statement** (for example, a cash flow statement) or to a specific element of a financial statement (for example, cash and bank balances) includes the related notes. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information relevant to the financial statement or to the element.

Background Material for Audit Training Workshops and Seminars**Acceptability of FRF**

- ❖ SA 200 requires compliance with all SAs relevant to audit:
 - This applies to audit of SFS even if the auditor also audits the complete FS.
 - If auditor not also engaged to audit the complete FS, consider the practicability of audit of SFS in accordance with SAs.

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- ❖ Includes need to comply with ethical standards including independence. (SA 200)
- ❖ Why it is not practicable to audit SFS if you are not also engaged to audit complete FS:
 - 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.
 - The auditor also does not have the 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. 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.

Acceptability of FRF

- ❖ Auditor to determine acceptability of FRF (SA 210):
 - Consider whether FRF includes all requirements relevant to preparation of SFS/EFS.
 - For audit of SFS, determine:
 - Whether application of FRF will result in presentation that provides adequate disclosures to enable intended users to understand info conveyed in SFS; and
 - Effect of material transactions and events on info conveyed in SFS.

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Form of Opinion

- ❖ Expected form of opinion depends upon applicable FRF & applicable L&R.
- ❖ Communicate expected form of report – SA 210:
 - Consider whether expected form of opinion is appropriate in the circumstances.

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- ❖ Factors that may affect the auditor's consideration as to whether to use the phrases "presents fairly, in all material respects", or "gives a true and fair view" in the auditor's opinion include:
 - Whether the applicable FRF is explicitly or implicitly restricted to the preparation of a complete set of FS.
 - Whether the SFS or the EFS will:
 - Comply fully with each of those requirements of the framework relevant to the particular financial statement or the particular element, and the presentation of the FS or the element include the related notes.
 - If necessary to achieve fair presentation, provide disclosures beyond those specifically required by the framework or, in exceptional circumstances, depart from a requirement of the framework.
- ❖ The auditor's decision as to the expected form of opinion is a matter of professional judgment.

Background Material for Audit Training Workshops and Seminars**Planning & Performance Considerations**

- ❖ Adapt all SAs as necessary in the audit of SFS:
 - Careful consideration of relevance of each SA is necessary.
 - When auditing SFS in conjunction with full FS, audit evidence obtained as part of audit of full FS may be useful but auditor nevertheless needs to plan & perform audit of SFS to obtain SAAE.
 - Some items from complete FS may be interrelated with EFS:
 - Auditor would need to perform procedures on such interrelated items.
 - Materiality of SFS < materiality for full FS:
 - Affects Nature, Timing, Extent of audit procedures.

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Forming Opinion & Reporting - Considerations

- ❖ Apply SA 700, as necessary.
- ❖ If also engaged to report on full FS, express separate opinion on each engagement.
- ❖ If audited SFS published with entity's audited full FS, presentation of SFS should be clearly differentiated from full FS.
- ❖ Do not issue audit report on SFS until satisfied with the differentiation.

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Modified Opinion/ EMP/OMP Para on Full FS

- ❖ Determine effect on SFS:
 - If appropriate, modify opinion on SFS/ include EMP, OMP.
 - If necessary to issue adverse / disclaimer opinion on full FS, unmodified opinion on SFS cannot be expressed, except (*for a specific element*):
 - Not prohibited by L&R;
 - Audit report on SFS not published together with audit report on full FS; and
 - Specific element does not constitute a major portion of entity's full FS.

Exception does not apply to SFS

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SA 810**Engagements to Report on Summary Financial Statements**

Effective for engagements for periods beginning on or after April 1, 2011