CHAPTER 8

SPECIALISED AREAS



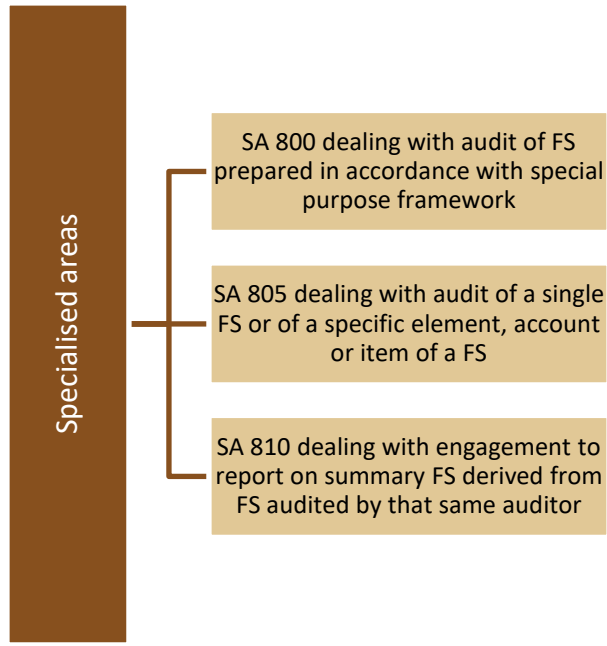
LEARNING OUTCOMES

After studying this chapter, you will be able to:

- Know about special considerations applicable in respect of the audit of financial statements prepared in accordance with the special purpose framework as per SA 800.
- Understand the meaning of special purpose framework.
- Know about special considerations applicable in acceptance, planning and performance and forming an opinion and reporting in such types of engagements.
- Gain knowledge about special considerations applicable to an audit of a single financial statement or of a specific element, account or item of a financial statement in accordance with SA 805.
- Understand the meaning of a single financial statement and elements of a financial statement.
- Know about special considerations applicable in acceptance, planning and performance and forming an opinion and reporting in such types of engagements in accordance with requirements of SA 805.
- Understand the responsibilities of an auditor when undertaking an engagement to report on summary financial statements derived from financial statements audited in accordance with SAs by the same auditor in accordance with SA 810.
- Know about special considerations applicable in acceptance, planning and performance and forming an opinion and reporting in such type of engagements in accordance with requirements of SA 810.
- Understand elements of audit report issued on summary financial statements in accordance with SA 810.

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CHAPTER OVERVIEW



CA Julie has joined an audit firm based in Mumbai. On her very first day in office, she was handed over an assignment pertaining to the audit of a client whose financial statements had been prepared in pursuance to the financial reporting provisions of a contract. The said client had entered into a contract with various entities stipulating payments to be made to these entities on the basis of certain parameters in lieu of services rendered by these entities to the auditee client.

The contract, inter alia, contained a provision that financial statements shall be specifically prepared considering the requirements of the contract. She was in a dilemma. Do Standards on Auditing apply to such types of engagements? Are there any special considerations to be borne in mind by the auditor before accepting such an engagement? Most importantly, she was worried about reporting aspects. The report in such a case was not going to be issued under the Companies Act 2013. What factors would come into play in such a case? She was also turning sceptical towards the possible use of the report.

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Julie wondered if there were any authoritative guidelines on this matter. Frustrated that she had barely passed the auditing paper in her CA final exams, she turned to the ICAI website for help. She discovered that SA 800 provided guidance for her situation. To gain better clarity, she also watched recorded webinars on the topic.

Through these resources, Julie learned that the SA 800-899 series deals with specialised areas. SA 800 covers special considerations in the audit of financial statements prepared in accordance with a special purpose framework, while SA 805 addresses special considerations to an audit of a single financial statement or of a specific element, account or item of a financial statement. Although she was familiar with the concept of elements of financial statements, the term "single financial statement" was new to her.

She found the whole topic of specialised areas quite interesting and delved deeper into the requirements of SA 810. She was astonished at the detailing made in SA 810 regarding summary financial statements, the nature of procedures, forming opinions and reporting considerations. All this was like a breath of fresh air. Julie was excited about applying these learnings in practice and felt more confident about her assignment.

1. INTRODUCTION

Special considerations apply in respect of the audit of financial statements prepared in accordance with the special purpose framework. Similarly, special considerations apply to an audit of a single financial statement or of a specific element, account or item of a financial statement.

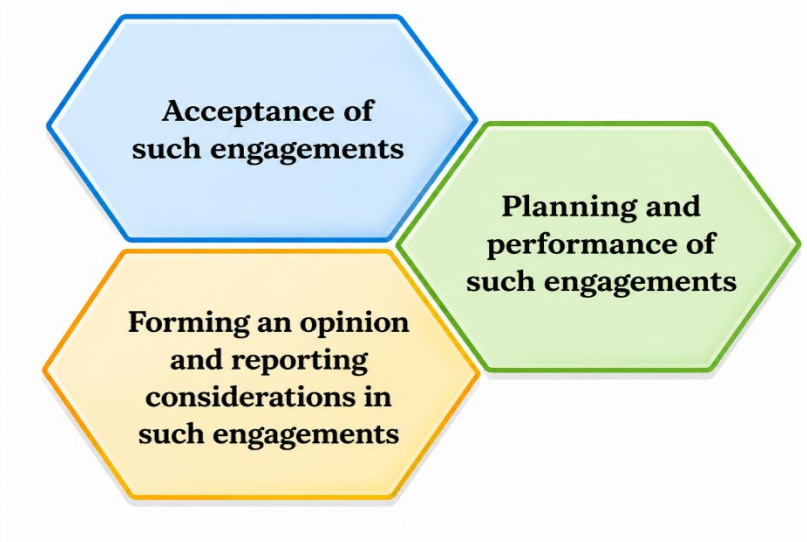
Specific responsibilities are cast upon an auditor in case of undertaking an engagement to report on summary financial statements derived from financial statements audited in accordance with SAs by that same auditor.

There are three separate SAs for the above specialised areas as under: -

• SA 800 deals with special considerations applicable in respect of the audit of financial statements prepared in accordance with the special purpose framework.
• SA 805 deals with special considerations applicable to an audit of a single financial statement or of a specific element, account or item of a financial statement.
• SA 810 deals with responsibilities of an auditor when undertaking an engagement to report on summary financial statements derived from financial statements audited in accordance with SAs by that same auditor.

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All the aforesaid discussed Standards on auditing broadly deal with following areas: -



2. SA 800, SPECIAL CONSIDERATIONS - AUDITS OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH SPECIAL PURPOSE FRAMEWORKS (REVISED)

As discussed above, SA 800 deals with special considerations applicable in respect of audit of financial statements prepared in accordance with special purpose framework.

SA 800 addresses special considerations that are relevant to: -	
(a)	The acceptance of the engagement
(b)	The planning and performance of that engagement and
(c)	Forming an opinion and reporting on the financial statements.

2.1 What is Special Purpose framework?

SA 800 defines special purpose framework as a financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.

The requirements of the applicable financial reporting framework determine the form and content of the financial statements and what constitutes a complete set of financial statements.

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Examples of Special purpose frameworks are: -

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

The special purpose framework is to be distinguished from the general purpose framework. A financial reporting framework designed to meet the common financial information needs of a wide range of users is known as the "General purpose framework", whereas a financial reporting framework designed to meet the financial information needs of specific users is known as the "Special purpose framework."

Reference to "financial statements" in this SA means "a complete set of special purpose financial statements" including the related notes. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial statements and what constitutes a complete set of financial statements.

2.2 Considerations When Accepting Such Engagement

In the case of special purpose financial statements, the financial information needs of the intended users are a key factor in determining the acceptability of the financial reporting framework applied in the preparation of the financial statements. The applicable financial reporting framework may encompass the financial reporting standards established by an organisation that is authorised or recognised to promulgate standards for special purpose financial statements.

In that case, 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 laws or regulations may prescribe the financial reporting framework to be used by management in the preparation of special purpose financial statements for a certain type of entity. For example, a regulator may establish financial reporting provisions to meet the requirements of that regulator. In the absence of indications to the contrary, such a financial reporting framework is presumed acceptable for special purpose financial statements prepared by such an entity.

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

The applicable financial reporting framework may encompass the financial reporting provisions of a contract or sources other than those described in the preceding paras. In that case, the acceptability of the financial reporting framework in the circumstances of the engagement is determined by considering whether the framework exhibits attributes normally exhibited by acceptable financial reporting frameworks in accordance with the requirements of SA 210.

In the case of a special purpose framework, the relative importance to a particular engagement of each of the attributes normally exhibited by acceptable financial reporting frameworks is a matter of professional judgment.

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.

2.3 Considerations When Planning and Performing Such Audit

SA 200 requires the auditor to comply with:	
(a)	**relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements, and**
(b)	**all SAs relevant to the audit.**

It also requires the auditor to comply with each requirement of an SA unless, in the circumstances of the audit, the entire SA is not relevant, or the 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.

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

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purpose financial statements, however, those judgments are based on a consideration of the financial information needs of the intended users.

SA 315 requires the auditor to obtain an understanding of the entity's selection and application of accounting policies. In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall obtain an understanding of any significant interpretations of the contract that management made in the preparation of those financial statements. An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the information presented in the financial statements.

In the case of special purpose financial statements, 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. The 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 financial statements.

SA 260 (Revised) requires the auditor to determine the appropriate person(s) within the entity's governance structure with whom to communicate. SA 260 (Revised) notes that, in some cases, all of those charged governance are involved in managing the entity, and the application of the communication requirements is modified to recognize this position. When a complete set of general purpose financial statements is also prepared by the entity, those person(s) responsible for the oversight of the preparation of the special purpose financial statements may not be the same as those charged with governance responsible for the oversight of the preparation of those general purpose financial statements.

Forming an Opinion and Reporting Considerations in such an Audit: When forming an opinion and reporting on special purpose financial statements, the auditor shall apply the requirements in Revised SA 700.

2.4 Description of the Applicable Financial Reporting Framework

Revised 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.

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SA 700(Revised) deals with the form and content of the auditor's report, including the specific ordering of certain elements. In the case of an auditor's report on special purpose financial statements:

(a) The auditor's report shall also describe the purpose for which the financial statements are prepared and, if necessary, the intended users, or refer to a note in the special purpose financial statements that contain that information; and

(b) If management has a choice of financial reporting frameworks in the preparation of such financial statements, the explanation of management's responsibility for the financial statements shall also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.

(c) When key audit matters are communicated in the auditor's report on special purpose financial statements, SA 701 applies in its entirety.

(d) SA 720(Revised) deals with the auditor's responsibilities relating to other information. In the context of this SA, reports containing or accompanying the special purpose financial statements – the purpose of which is to provide owners (or similar stakeholders) with information on matters presented in special purpose financial statements – are considered to be annual reports for the purposes of SA 720(Revised). In the case of financial statements prepared using a special purpose framework, the term "similar stakeholders" includes the specific users whose financial information needs are met by the design of the special purpose framework used to prepare the special purpose financial statements. When the auditor determines that the entity plans to issue such a report, the requirements of SA 720(Revised) apply to the audit of the special purpose financial statements.

(e) The auditor may deem it appropriate to refer, in an Other Matter paragraph in the auditor's report on the special purpose financial statements, to the auditor's report on the complete set of general purpose financial statements or to matter(s) reported therein as per SA 706 (Revised). For example, the auditor may consider it appropriate to refer in the auditor's report on the special purpose financial statements to a Material Uncertainty Related to Going Concern section included in the auditor's report on the complete set of general purpose financial statements.

2.5 Alerting Readers that the Financial Statements are Prepared in Accordance with a Special Purpose Framework

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 records. To avoid misunderstandings, the auditor alerts users of the

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auditor's report by including an Emphasis of Matter paragraph explaining that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose. SA 706(Revised) requires this paragraph to be included within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter".

2.6 Restriction on Distribution or Use

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

Example of Emphasis of Matter - Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Company in complying 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 the Company and DEF Company Limited and should not be distributed to or used by parties other than the Company or DEF Company Limited. Our opinion is not modified in respect of this matter.

TEST YOUR UNDERSTANDING 1

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 "Emphasis of Matter Paragraph" in audit report to be issued by her for this specific engagement. Is her approach proper?

TEST YOUR UNDERSTANDING 2

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.

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3. SA 805-SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT (REVISED)

The Standards on Auditing (SAs) in the 100-700 series apply to an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. This SA deals with special considerations in the application of those SAs to an audit of a single financial statement or of a specific element, account or item of a financial statement. 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(Revised) also applies to the audit.

SA 805 does not apply to the report of a component auditor, issued as a result of work performed on the financial information of a component at the request of a principal auditor for purposes of an audit of consolidated financial statements.

The objective of the auditor, when applying SAs in an audit of a single financial statement or of a specific element, account or item of a financial statement, is to address appropriately the special considerations that are relevant to:

(a) The acceptance of the engagement;

(b) The planning and performance of that engagement; and

(c) Forming an opinion and reporting on the single financial statement or on the specific element, account or item of a financial statement.

3.1 What is a Single Financial Statement?

A single financial statement is to be distinguished from a complete set of financial statements. **For example,** a cash flow statement is a single financial statement.

3.2 What is the Element of a Financial Statement?

"Element of a financial statement" or "element" means an *"element, account or item of a financial statement." For example, trade receivables or cash and bank balances*

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A single financial statement or a specific element of a financial statement includes the related notes ordinarily comprising a summary of significant accounting policies and other explanatory information relevant to the financial statement or to the element.

3.3 Considerations When Accepting Such Engagement

3.3.1 Application of SAs

SA 200 requires the auditor to comply with all SAs relevant to the audit. In the case of an audit of a single financial statement or of a specific element of a financial statement, this requirement applies irrespective of whether the auditor is also engaged to audit the entity's complete set of financial statements. 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.

SA 200 requires the auditor to comply with (a) relevant ethical requirements, including those pertaining to independence relating to financial statement audit engagements, and (b) all SAs relevant to the audit. It also requires the auditor to comply with each requirement of an SA unless, in the circumstances of the audit, the entire SA is not relevant or the 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.

Compliance with the requirements of SAs relevant to the audit of a single financial statement or of a specific element of a financial statement may not be practicable when the auditor is not also engaged to audit the entity's complete set of financial statements. 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. 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.

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. 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.

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3.3.2 Acceptability of the Financial Reporting Framework

SA 210 requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements. In the case of an audit of a single financial statement or of a specific element of a financial statement, this shall include whether application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element.

A single financial statement or a specific element of a financial statement may be prepared in accordance with an applicable financial reporting framework that is based on a financial reporting framework established by an authorised or recognised standards setting organisation for the preparation of a complete set of financial statements [e.g., Financial Reporting Framework]. If this is the case, determination of the acceptability of the applicable framework may involve considering whether that framework includes all the requirements of the framework on which it is based that are relevant to the presentation of a single financial statement or of a specific element of a financial statement that provides adequate disclosures.

3.4 Considerations When Planning and Performing the Audit

In planning and performing the audit of a single financial statement or of a specific element of a financial statement, the auditor shall adapt all SAs relevant to the audit as necessary in the circumstances of the engagement. The relevance of each of the SAs requires careful consideration. Even when only a specific element of a financial statement is the subject of the audit, SAs such as SA 240, SA 550 and SA 570(Revised) are, in principle, relevant. This is because the element could be misstated as a result of fraud, the effect of related party transactions, or the incorrect application of the going concern basis of accounting under the applicable financial reporting framework.

SA 260(Revised) requires the auditor to determine the appropriate person(s) within the entity's governance structure with whom to communicate. SA 260(Revised) notes that, in some cases, all of those charged with governance are involved in managing the entity, and the application of communication requirements is modified to recognise this position. When complete set of financial statements is also prepared by the entity, those person(s) responsible for the oversight of the preparation of the single financial statement or the element may not be the same as those charged with governance responsible for the oversight of the preparation of the complete set of financial statements.

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When auditing a single financial statement or a specific element of a financial statement in conjunction with the audit of the entity's complete set of financial statements, the auditor may be able to use audit evidence obtained as part of the audit of the entity's complete set of financial statements in the audit of the financial statement or the element. SAs, however, require the auditor to plan and perform the audit of the financial statement or element to obtain sufficient appropriate audit evidence on which to base the opinion on the financial statement or on the element.

The individual financial statements that comprise a complete set of financial statements, and many of the elements of those financial statements, including their related notes, are interrelated. Accordingly, when auditing a single financial statement or a specific element of a financial statement, the auditor may not be able to consider the financial statement or the element in isolation. Consequently, the auditor may need to perform procedures in relation to the interrelated items to meet the objective of the audit.

Furthermore, the materiality determined for a single financial statement or for a specific element of a financial statement may be lower than the materiality determined for the entity's complete set of financial statements; this will affect the nature, timing and extent of the audit procedures and the evaluation of uncorrected misstatements.

3.5 Form of Opinion

SA 210 requires that the agreed terms of the audit engagement include the expected form of any reports to be issued by the auditor. In the case of an audit of a single financial statement or of a specific element of a financial statement, the auditor shall consider whether the expected form of opinion is appropriate in the circumstances.

The form of opinion to be expressed by the auditor depends on the applicable financial reporting framework and any applicable laws or regulations. In accordance with Revised SA 700:
(a) When expressing an unmodified opinion on a complete set of financial statements prepared in accordance with a fair presentation framework, the auditor's opinion, unless otherwise required by law or regulation, uses one of the following phrases: (i) the financial statements present fairly, in all material respects, in accordance with the applicable financial reporting framework or (ii) the financial statements give a true and fair view in accordance with the applicable financial reporting framework and
(b) When expressing an unmodified opinion on a complete set of financial statements prepared in accordance with a compliance framework, the auditor's opinion states that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

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In the case of *a* single financial statement or of a specific element of a financial statement, the applicable financial reporting framework may not explicitly address the presentation of the financial statement or of the specific element of the financial statement. This may be the case when the applicable financial reporting framework is based on a financial reporting framework established by an authorised or recognised standards setting organisation for the preparation of a complete set of financial statements. The auditor therefore considers whether the expected form of opinion is appropriate in the light of the applicable financial reporting framework.

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 financial reporting framework is explicitly or implicitly restricted to the preparation of a complete set of financial statements.	
• Whether the single financial statement or the specific element of a financial statement 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 financial statement or the specific element of a financial statement include the related disclosures.	♦ 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. It may be affected by whether use of the phrases "presents fairly, in all material respects", or "gives a true and fair view" in the auditor's opinion on a single financial statement or on a specific element of a financial statement prepared in accordance with a fair presentation framework is generally accepted in the particular jurisdiction.

3.6 Forming an Opinion and Reporting Considerations

When forming an opinion and reporting on a single financial statement or on a specific element of a financial statement, the auditor shall apply the requirements in Revised SA 700, and, when applicable, SA 800(Revised) adapted as necessary in the circumstances of the engagement. In doing so, the auditor is also required to apply the reporting requirements in other SAs, adapted as necessary in the circumstances of the engagement, and may find the considerations addressed in SA 700(Revised).

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Revised SA 700 requires the auditor, in forming an opinion, to evaluate whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements. In the case of a single financial statement or of a specific element of a financial statement, it is important that the financial statement or the element, including the related notes, in view of the requirements of the applicable financial reporting framework, provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element.

Going Concern: Depending on the applicable financial reporting framework used in the preparation of the single financial statement or the specific element of a financial statement, the description in the auditor's report of management's responsibilities relating to going concern may need to be adapted, as necessary. The description in the auditor's report of the auditor's responsibilities may also need to be adapted as necessary depending on how SA 570(Revised) applies in the circumstances of the engagement.

Key Audit Matters: SA 700(Revised) requires the auditor to communicate key audit matters in accordance with SA 701 for audits of complete sets of general purpose financial statements of listed entities.

Other Information: SA 720(Revised) deals with the auditor's responsibilities relating to other information. In the context of this SA, reports containing or accompanying the single financial statement or specific element of a financial statement – the purpose of which is to provide owners (or similar stakeholders) with information on matters presented in the single financial statement or the specific element of a financial statement – are considered to be annual reports for the purposes of SA 720(Revised). When the auditor determines that the entity plans to issue such a report, the requirements of SA 720(Revised) apply to the audit of the single financial statement or the element.

Signature of the Auditor: The auditor's report shall be signed. The report is signed by the auditor (i.e. the engagement partner) in his personal name. Where the firm is appointed as the auditor, the report is signed in the personal name of the auditor and in the name of the audit firm. The partner/proprietor signing the auditor's report also needs to mention the membership number assigned by the Institute of Chartered Accountants of India. They also include the registration number of the firm, wherever applicable, as allotted by ICAI, in the auditor's reports signed by them.

This SA requires the auditor to consider the implications, if any, of certain matters included in the auditor's report on the complete set of financial statements for the audit of the single financial statement or the specific element of a financial statement and for the auditor's report thereon.

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Considering whether a matter included in the auditor's report on the complete set of financial statements is relevant in the context of an engagement to report on a single financial statement or a specific element of a financial statement involves professional judgment.

Factors that may be relevant in considering those implications include:

- The nature of the matter(s) being described in the auditor's report on the complete set of financial statements and the extent to which it relates to what is included in the single financial statement or a specific element of a financial statement.
- The pervasiveness of the matter(s) described in the auditor's report on the complete set of financial statements.
- The nature and extent of the differences between the applicable financial reporting frameworks.
- The extent of the difference between the period(s) covered by the complete set of the financial statements compared to the period(s) or dates of the single financial statement or the element of a financial statement.
- The time elapsed since the date of the auditor's report on the complete set of the financial statements.

For example, in the case when there is a qualification of the auditor's opinion in relation to accounts receivable in the auditor's report on the complete set of financial statements, and the single financial statement includes accounts receivable, or the specific element of a financial statement relates to accounts receivable, it is likely that there would be implications for the audit. On the other hand, if the qualification of the auditor's opinion on the complete set of financial statements relates to classification of long-term debt, then it is less likely that there would be implications for an audit of the single financial statement that is the Statement of Profit and Loss, or if the specific element of the financial statement relates to accounts receivable.

Inclusion of a reference to the auditor's report on the complete set of financial statements: Even when certain matters included in the auditor's report on the complete set of financial statements do not have implications for the audit of, or for the auditor's report on, the single financial statement or the specific element of a financial statement, the auditor may deem it appropriate to refer to the matter(s) in an Other Matter paragraph in an auditor's report on the single financial statement or on the specific element of a financial statement as per SA 706(Revised).

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For example, the auditor may consider it appropriate to refer in the auditor's report on the single financial statement or a specific element of the financial statement to a Material Uncertainty Related to Going Concern section included in the auditor's report on the complete set of financial statements.

If the auditor undertakes an engagement to report on a single financial statement or on a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor shall express a separate opinion for each engagement.

The audited single financial statement or the audited specific element of a financial statement may be published together with the entity's audited complete set of financial statements. If the auditor concludes that the presentation of the single financial statement or of the specific element of a financial statement does not differentiate it sufficiently from the complete set of financial statements, the auditor shall ask management to rectify the situation. The auditor shall also differentiate the opinion on the single financial statement or on the specific element of a financial statement from the opinion on the complete set of financial statements. The auditor shall not issue the auditor's report containing the opinion on the single financial statement or on the specific element of a financial statement until satisfied with the differentiation.

Considering the Implications of Certain Matters Included in the Auditor's Report on the Entity's Complete Set of Financial Statements for the Audit of the Single Financial Statement or the Specific Element of a Financial Statement and for the Auditor's Report Thereon

If the auditor's report on an entity's complete set of financial statements includes:	
(a)	A modified opinion in accordance with SA 705(Revised);
(b)	An Emphasis of Matter paragraph or an Other Matter paragraph in accordance with SA 706(Revised);
(c)	A Material Uncertainty Related to Going Concern section in accordance with SA 570(Revised); or
(d)	A statement that describes an uncorrected material misstatement of the other information in accordance with SA 720(Revised).

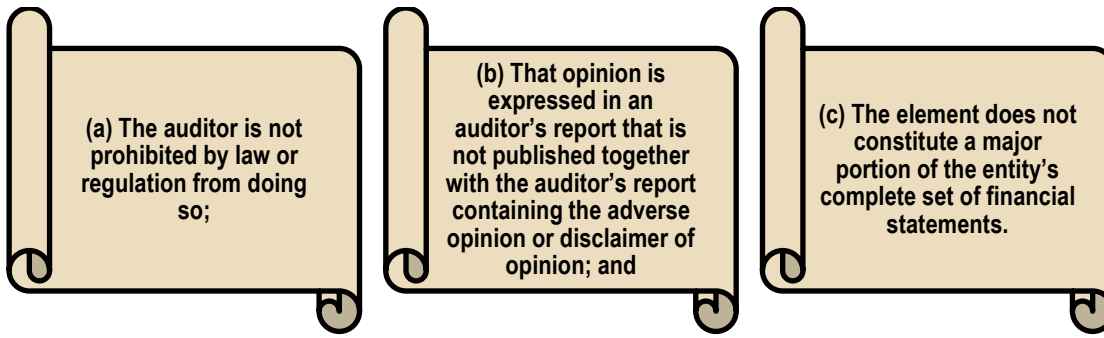
the auditor shall consider the implications, if any, that these matters, may have for the audit of the single financial statement or of the specific element of a financial statement and for the auditor's report thereon.

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Adverse Opinion or Disclaimer of Opinion in the Auditor's Report on the Entity's Complete Set of Financial Statements:

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, Revised SA 705 does not permit the auditor to include in the same auditor's report an unmodified opinion on a single financial statement that forms part of those financial statements or on a specific element of those financial statements. This is because such an unmodified opinion would contradict the adverse opinion or disclaimer of opinion on the entity's complete set of financial statements as a whole.

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, in the context of a separate audit of a specific element that is included in those financial statements, the auditor nevertheless considers it appropriate to express an unmodified opinion on that element, the auditor shall only do so if:



The auditor shall not express an unmodified opinion on a single financial statement of a complete set of financial statements if the auditor has expressed an adverse opinion or disclaimed an opinion on the complete set of financial statements as a whole. This is the case even if the auditor's report on the single financial statement is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion. This is because a single financial statement is deemed to constitute a major portion of those financial statements.

In the auditor's report on an entity's complete set of financial statements, the expression of a disclaimer of opinion regarding the results of operations and cash flows, where relevant, and an unmodified opinion regarding the state of affairs is permitted since the disclaimer of opinion is being issued in respect of the results of operations and cash flows only and not in respect of the financial statements as a whole.

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SA 800 and 805 do not override the requirements of the other SAs; nor do they purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

Examples of Specific Elements, Accounts or Items of a Financial Statement are	
	• 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.

TEST YOUR UNDERSTANDING 3

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 an audit of trade receivables appearing in above financial statements. Can he accept such an engagement? Discuss brief outline of his audit approach in such a situation.

TEST YOUR UNDERSTANDING 4

CA G is offered appointment for audit of trade payables of financial statements of a company. However, financial statements prepared under the Companies Act, 2013 are audited by CA Jignesh. Discuss why it would be practically difficult for CA G to perform such an audit.

4. SA 810 - ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS (REVISED)

SA 810 deals with the auditor's responsibilities when undertaking an engagement to report on summary financial statements derived from financial statements audited in accordance with SAs by that same auditor.

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4.1 What do Summary Financial Statements Reflect?

Summary financial statements reflect 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. Different laws and regulations may use different terminology to describe such historical financial information.

4.2 Engagement Acceptance

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. If the auditor has not also audited the financial statements from which the summary financial statements are derived, the auditor shall not have the necessary knowledge to discharge his responsibilities in relation to the summary financial statements in accordance with this SA.

Herein lies the rationale behind the requirement that engagement to report on summary financial statements shall, ordinarily, be accepted when the auditor has been engaged to conduct an audit of financial statements from which summary financial statements are derived.

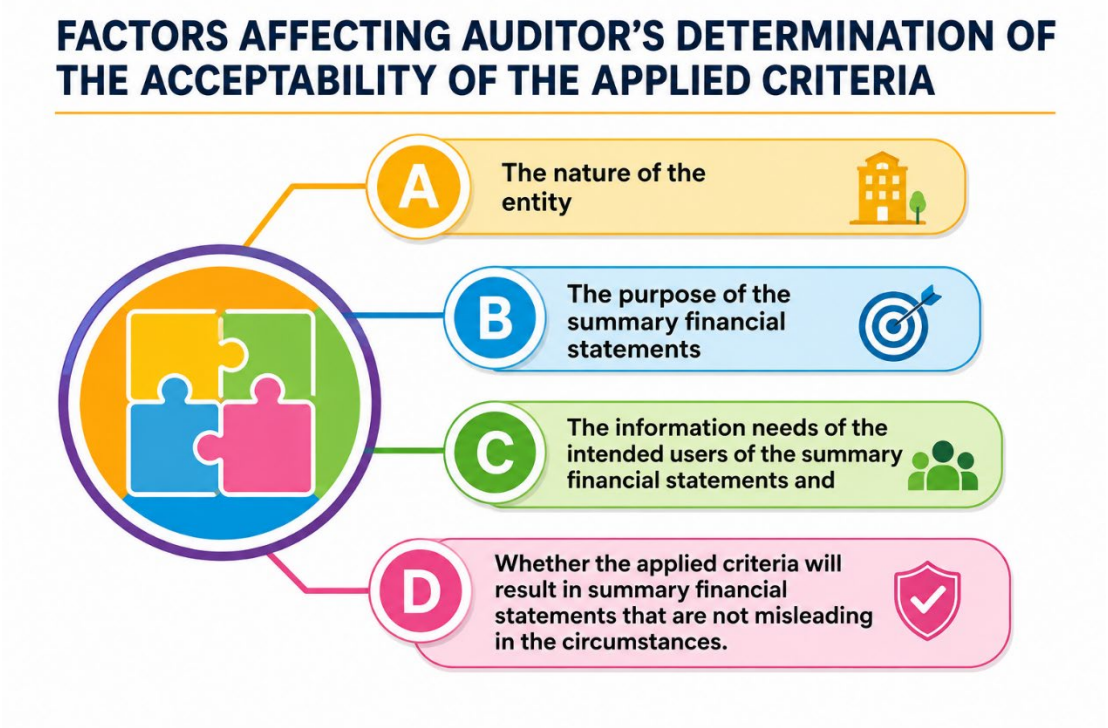
4.2.1 Before accepting an engagement to report on summary financial statements, the auditor shall

(a) Determine whether the applied criteria are acceptable.

Applied criteria refer to the criteria applied by management in the preparation of the summary financial statements. The preparation of summary financial statements requires management to determine 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. 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.

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Factors affecting the auditor's determination of the acceptability of the applied criteria:
➢ The nature of the entity
➢ The purpose 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 not misleading in the circumstances.



The criteria for the preparation of summary financial statements may be established by an authorised or recognised standards setting organisation or by law or regulation. Similar to the case of financial statements, as explained in SA 210, in many such cases, the auditor may presume that such criteria are acceptable. Where established criteria for the preparation of summary financial statements do not exist, criteria may be developed by management, for example, based on practice in a particular industry.

If the auditor concludes that the applied criteria are unacceptable or is unable to obtain the agreement of management as discussed above, the auditor shall not accept the engagement to report on the summary financial statements, unless required by law or regulation to do so. An engagement conducted in accordance with such law or regulation does not comply with this SA.

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Accordingly, the auditor's report on the summary financial statements shall not indicate that the engagement was conducted in accordance with this SA. The auditor shall include appropriate reference to this fact in the terms of the engagement. The auditor shall also determine the effect that this may have on the engagement to audit the financial statements from which the summary financial statements are derived.

Adequate disclosure of the summarised nature of the summary financial statements and the identity of the audited financial statements, may, for example, be provided by a title such as "Summary financial statements prepared from the audited financial statements for the year ended March 31, 20XX".

(b) Obtain the agreement of management that it acknowledges and understands its responsibility:

i. For the preparation of the summary financial statements in accordance with the applied criteria.

ii. To make the audited financial statements available to the intended users of the summary financial statements without undue difficulty (or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements, to describe that law or regulation in the summary financial statements).

The auditor's evaluation whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty is affected by factors such as whether:
• The summary financial statements describe clearly from whom or where the audited financial statements are available;
• The audited financial statements are on public record; or
• Management has established a process by which the intended users of the summary financial statements can obtain ready access to the audited financial statements.

iii. To include the auditor's report on the summary financial statements in any document that contains the summary financial statements and that indicates that the auditor has reported on them.

(c) Agree with management on the form of opinion to be expressed on the summary financial statements.

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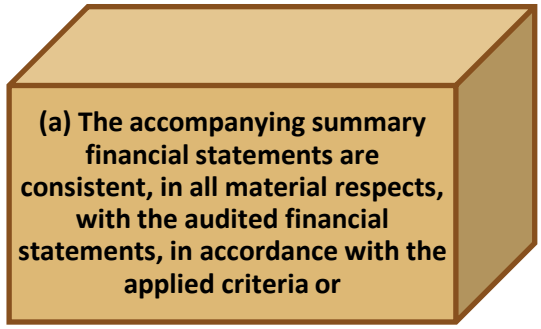
4.3 Nature of Procedures to be Performed by Auditor

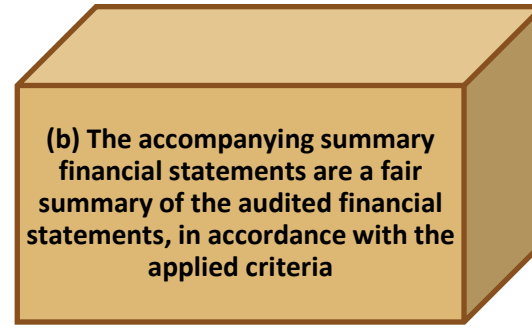
The auditor shall perform the following procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements:	
(a)	Evaluate whether the summary financial statements adequately disclose their summarised nature and identify the audited financial statements.
(b)	**When summary financial statements are not accompanied by the audited financial statements, evaluate whether they describe clearly:** (i) From whom or where the audited financial statements are available; or (ii) The law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements.
(c)	Evaluate whether the summary financial statements adequately disclose the applied criteria.
(d)	Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be re-calculated from the related information in the audited financial statements.
(e)	Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.
(f)	Evaluate, in view of the purpose of the summary financial statements, whether the summary financial statements contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.
(g)	Evaluate whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements as discussed already.

4.4 Form of Opinion

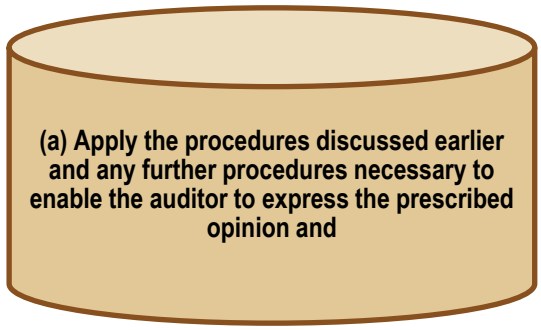
When the auditor has concluded that an unmodified opinion on the summary financial statements is appropriate, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases:

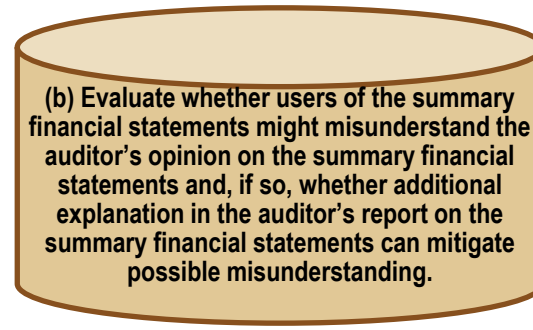
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If law or regulation prescribes the wording of the opinion on summary financial statements in terms that are different from those described above, the auditor shall:





If, the auditor concludes that additional explanation in the auditor's report on the summary financial statements cannot mitigate possible misunderstanding, the auditor shall not accept the engagement, unless required by law or regulation to do so. An engagement conducted in accordance with such law or regulation does not comply with this SA. Accordingly, the auditor's report on the summary financial statements shall not indicate that the engagement was conducted in accordance with this SA.

4.5 Auditor's Report on Summary Financial Statements

Elements of the Auditor's Report*:* The auditor's report on summary financial statements shall include the following elements: -

(a) A title clearly indicating it as the report of an independent auditor.

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(b) An addressee: If the addressee of the summary financial statements is not the same as the addressee of the auditor's report on the audited financial statements, the auditor shall evaluate the appropriateness of using a different addressee. Factors that may affect the auditor's evaluation of the appropriateness of the addressee of the summary financial statements include the terms of the engagement, the nature of the entity, and the purpose of the summary financial statements.

(c) Identification of the summary financial statements on which the auditor is reporting, including the title of each statement, included in the summary financial statements - When the auditor is aware that the summary financial statements will be included in a document that contains information other than the summary financial statements and the auditor's report thereon, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the summary financial statements are presented. This helps readers identify the summary financial statements to which the auditor's report relates.

(d) Identification of the audited financial statements.

(e) A clear expression of an opinion.

(f) A statement indicating that the summary financial statements do not contain all the disclosures required by the financial reporting framework applied in the preparation of the audited financial statements and that reading the summary financial statements and the auditor's report thereon is not a substitute for reading the audited financial statements and the auditor's report thereon.

(g) If required, then a statement 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.

(h) Reference to the auditor's report on the audited financial statements, the date of that report, and the fact that an unmodified opinion is expressed on the audited financial statements.

(i) A description of management's responsibility for the summary financial statements, explaining that management is responsible for the preparation of the summary financial statements in accordance with the applied criteria.

(j) A statement that the auditor is responsible for expressing an opinion, based on the auditor's procedures conducted in accordance with this SA, on whether the summary financial statements are consistent, in all material respects, with [or are a fair summary of] the audited financial statements.

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(k) The auditor's signature along with the firm registration number, wherever applicable, and the membership number assigned by the Institute of Chartered Accountants of India. Besides, UDIN is required to be stated.

(l) The date of the auditor's report

The auditor shall date the auditor's report on the summary financial statements no earlier than:

(i) The date on which the auditor has obtained sufficient appropriate evidence on which to base the opinion, including evidence that the summary financial statements have been prepared and those with the recognised authority have asserted that they have taken responsibility for them; and

(ii) The date of the auditor's report on the audited financial statements.

(m) The place of signature.

4.6 Modifications to the Opinion, Emphasis of Matter Paragraph or Other Matter Paragraph in the Auditor's Report on the Audited Financial Statements

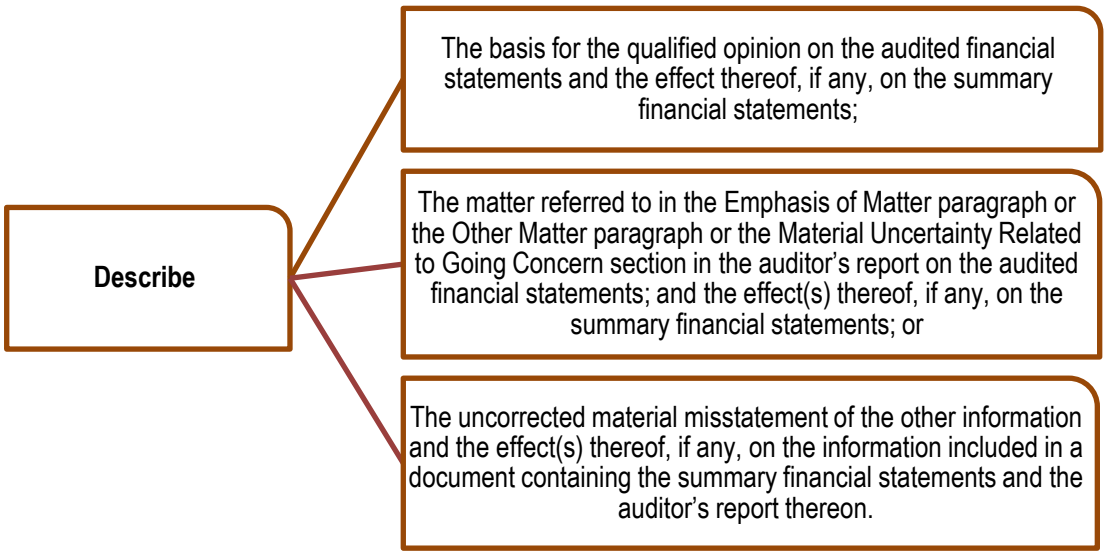
Reference to the Auditor's Report on the Audited Financial Statements : When the auditor's report on the audited financial statements includes:
a qualified opinion in accordance with SA 705(Revised);
an Emphasis of Matter paragraph, or an Other Matter paragraph in accordance with SA 706(Revised);
A Material Uncertainty Related to Going Concern section in accordance with SA 570(Revised);
Communication of key audit matters in accordance with SA 701; or
A statement that describes an uncorrected material misstatement of the other information in accordance with SA 720(Revised);

and 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, the auditor's report on the summary financial statements shall, in addition to the elements discussed above:

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(a) State that the auditor's report on the audited financial statements includes a qualified opinion, an Emphasis of Matter paragraph, an Other Matter paragraph, a Material Uncertainty Related to Going Concern section, communication of key audit matters, or a statement that describes an uncorrected material misstatement of the other information; and

(b) Describe:



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, in addition to the elements :

State that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer of opinion;	**Describe the basis for that adverse opinion or disclaimer of opinion; and**	**State that, as a result of the adverse opinion or disclaimer of opinion on the audited financial statements, it is inappropriate to express an opinion on the summary financial statements.**

4.6.1 Modified Opinion on the Summary Financial Statements

If the summary financial statements are not consistent, in all material respects, with or are not a fair summary of the audited financial statements, in accordance with the applied criteria, and

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management does not agree to make the necessary changes, the auditor shall express an adverse opinion on the summary financial statements.

4.7 Restriction on Distribution or Use or Alerting Readers to the Basis of Accounting

When distribution or use of the auditor's report on the audited financial statements is restricted, or the auditor's report on the audited financial statements alerts readers that the audited financial statements are prepared in accordance with a special purpose framework, the auditor shall include a similar restriction or alert in the auditor's report on the summary financial statements.

4.8 Comparatives

If the audited financial statements contain comparatives, but the summary financial statements do not, the auditor shall determine whether such omission is reasonable in the circumstances of the engagement. The auditor shall determine the effect of an unreasonable omission on the auditor's report on the summary financial statements.

If the summary financial statements contain comparatives that were reported on by another auditor, the auditor's report on the summary financial statements shall also contain the matters that SA 710 requires the auditor to include in the auditor's report on the audited financial statements.

4.9 Unaudited Supplementary Information Presented With Summary Financial Statements

The auditor shall evaluate whether any unaudited supplementary information presented with the summary financial statements is clearly differentiated from the summary financial statements. If the auditor concludes that the entity's presentation of the unaudited supplementary information is not clearly differentiated from the summary financial statements, the auditor shall ask management to change the presentation of the unaudited supplementary information. If management refuses to do so, the auditor shall explain in the auditor's report on the summary financial statements that such information is not covered by that report.

4.10 Information in Documents Containing Summary Financial Statements

The auditor shall read the information included in a document containing the summary financial statements and the auditor's report thereon and consider whether there is a material inconsistency between that information and the summary financial statements.

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If the auditor identifies a material inconsistency, the auditor shall discuss the matter with management and determine whether the summary financial statements or the information included in the document containing the summary financial statements and the auditor's report thereon needs to be revised. If the auditor determines that the information needs to be revised and management refuses to revise the information as necessary, the auditor shall take appropriate action in the circumstances, including considering the implications for the auditor's report on the summary financial statements.

4.11 Auditor Association

If the auditor becomes aware that the entity plans to state that the auditor has reported on summary financial statements in a document containing the summary financial statements, but does not plan to include the related auditor's report, the auditor shall request management to include the auditor's report in the document. If management does not do so, the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately associating the auditor with the summary financial statements in that document.

The auditor may be engaged to report on the financial statements of an entity, while not engaged to report on the summary financial statements. If, in this case, the auditor becomes aware that the entity plans to make a statement in a document that refers to the auditor and the fact that summary financial statements are derived from the financial statements audited by the auditor, the auditor shall be satisfied that:
(a) The reference to the auditor is made in the context of the auditor's report on the audited financial statements; and
(b) The statement does not give the impression that the auditor has reported on the summary financial statements.

If (a) or (b) are not met, the auditor shall request management to change the statement to meet them, or not to refer to the auditor in the document. Alternatively, the entity may engage the auditor to report on the summary financial statements and include the related auditor's report in the document. If management does not change the statement, delete the reference to the auditor, or include an auditor's report on the summary financial statements in the document containing the summary financial statements, the auditor shall advise management that the auditor disagrees with the reference to the auditor, and the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately referring to the auditor.

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4.12 Timing of Work and Events Subsequent to the Date of the Auditor's Report on the Audited Financial Statements

The auditor's report on the summary financial statements may be dated later than the date of the auditor's report on the audited financial statements. In such cases, the auditor's report on the summary financial statements shall 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.

The auditor may become aware of facts that existed at the date of the auditor's report on the audited financial statements but of which the auditor previously was unaware. In such cases, the auditor shall not issue the auditor's report on the summary financial statements until the auditor's consideration of such facts in relation to the audited financial statements in accordance with SA 560 has been completed.

When the auditor reports on the summary financial statements after the completion of the audit of the financial statements, the auditor is not required to obtain additional audit evidence on the audited financial statements, or report on the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements since the summary financial statements are derived from the audited financial statements.

TEST YOUR UNDERSTANDING 5

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.

TEST YOUR UNDERSTANDING 6

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.

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INTEGRATED CASE SCENARIO

Given below is an extract of abridged financial statements of schemes of ***"Smart Investment Mutual Fund".*** The abridged financial statements have been derived from audited financial statements of the schemes of ***"Smart Investment Mutual Fund"*** as at 31St March 20XX and for year ended 31st March,20XX.

Abridged Balance sheet as at 31st March 20XX ***(in ₹ Lacs)***

Liabilities	***Smart investment equity and debt fund***	***Smart investment equity savings fund***
Unit Capital	20000.00	15000.00
Reserve and Surplus	160000.00	80000.00
Other current liabilities & provisions	100.00	100.00
Total	***180100.00***	***95100.00***
Assets		
Investments	170000.00	90000.00
Deposits	100.00	100.00
Other Current assets	10000.00	5000.00
Total	***180100.00***	***95100.00***

Abridged revenue account for year ended 31st March 20XX (In ₹ Lacs)

Income	***Smart investment equity and debt fund***	***Smart investment equity savings fund***
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
Net Surplus	32600.00	200.00
Dividend appropriation	3000.00	50.00
Retained Surplus	29600.00	150.00

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.

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Unmodified opinion has been expressed by auditor in audited financial statements of the schemes of ***"Smart Investment Mutual Fund"*** as at 31St March 20XX and for year ended 31st March, 20XX.

Keeping in view above, answer the following questions: -

1. Given the above extract of abridged financial statements and description, which of the following statements is most appropriate?

(a) The auditor may presume that criteria applied by the Board of Trustees in the preparation of the abridged financial statements are acceptable.

(b) The auditor cannot presume that criteria applied by the Board of Trustees in preparation of abridged financial statements are acceptable.

(c) 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.

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 re-calculated 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.

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

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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.

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.

5. Which of the following is usually not an element of audit report on abridged financial statements in accordance with SA 810?

(a) Emphasis of Matter paragraph.

(b) Other Matter paragraph.

(c) Management's responsibility for abridged financial statements.

(d) Key Audit Matters.

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Key Takeaways

- SA 800 deals with special considerations applicable in respect of audit of financial statements prepared in accordance with special purpose framework.
- SA 800 defines special purpose framework as a financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.
- SA 800 addresses special considerations that are relevant to the acceptance of the engagement, the planning and performance of that engagement and forming an opinion and reporting on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- The special purpose financial statements may be used for purposes other than those for which they were intended. 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 and, therefore, may not be suitable for another purpose.
- SA 805 deals with special considerations applicable to an audit of a single financial statement or of a specific element, account or item of a financial statement.
- 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 such an audit of a single financial statement or of a specific element, account or item of a financial statement.
- Single financial statement is to be distinguished from complete set of financial statements. For example, a cash flow statement is a single financial statement.
- "Element of a financial statement" or "element" means an "element, account or item of a financial statement." For example, trade receivables or cash and bank balances.
- The objective of the auditor, when applying SAs, in such an audit, is to address appropriately the special considerations that are relevant to acceptance of engagement, planning and performance of engagement and forming an opinion and reporting but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- In planning and performing the audit of a single financial statement or of a specific element of a financial statement, the auditor shall adapt all SAs relevant to the audit as necessary in the circumstances of the engagement.

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- If the auditor undertakes an engagement to report on a single financial statement or on a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor shall express a separate opinion for each engagement.
- SA 810 deals with responsibilities of an auditor when undertaking an engagement to report on summary financial statements derived from financial statements audited in accordance with SAs by that same auditor.
- Summary financial statements reflect 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.
- 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 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 date of the auditor's report on the summary financial statements is later than the date of the auditor's report on the audited financial statements, auditor's report on summary financial statements states 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.

For a concise revision of the key concepts covered in this chapter, students may refer to the Saransh Booklet for Paper 3: Advanced Auditing, Assurance and Professional Ethics, which serves as a useful last-mile revision resource for examination preparation. Saransh Booklet can be accessed at https://boslive.icai.org/AAAPE_SARANSH.pdf

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TEST YOUR KNOWLEDGE

Theoretical Questions

1. *CA P is auditor of a company responsible for auditing the 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 an unmodified opinion in respect of trade receivables? If so, discuss those circumstances.*

2. *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, the meaning of special purpose framework.*

3. *CA Y is the auditor of Stekk Ltd., a company that recently faced material misstatements in its financial records, leading to an adverse opinion on the audited financial statements for the financial year 2025-26. Now, the management of the company has prepared summary financial statements derived from the audited financial statements and requested CA Y to express his opinion on these summaries. What additional points should CA Y consider when expressing an opinion on these summary financial statements?*

4. *Mr. BK has been engaged by XYZ Ltd. to report on summary financial statements derived from the financial statements audited by him in accordance with SAs. Mr. BK wants to determine whether the applied criteria are acceptable before accepting such assignment. Guide him the factors affecting auditor's determination of the acceptability of applied criteria as per relevant Standard on Auditing.*

5. *When auditor's report on the audited financial statements contains a qualified opinion, but the auditor is satisfied that the summary financial statements are a fair summary of the audited financial statements, in accordance with the applied criteria, which other matters shall the auditor's report on the summary financial statements contain in addition to elements of auditor's report described in SA 810?*

   If summary financial statements are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, what are implications for auditor's opinion on summary financial statements?

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6. *CA Rajni is appointed as the statutory auditor of STS Ltd. for the financial year 2025-26 for auditing complete set of financial statements. The company has also assigned the audit of Property, Plant and Equipment to CA Rajni as a separate engagement for the financial year 2025-26. While drafting the audit report of complete set of financial statements, CA Rajni decides to give an adverse opinion based on the audit observations noted during the course of audit. At the same time, she is also finalizing the audit report of the separate engagement where she wants to give an unmodified opinion.*

   Comment with reference to the relevant Standard on Auditing regarding the opinion to be given by CA Rajni in audit report of separate engagement of audit of Property, Plant and Equipment.

7. *Gold Opportunities Fund is in the business of Mutual fund and has prepared the financial statements for the F.Y. ended on 31st March 2026. These financial statements have been audited by M/s SH & Co., Chartered Accountants, and the audit report issued is unqualified. The company has also prepared a scheme wise summary of its financial performance for the stakeholders. The management of Gold Opportunities Fund further engages M/s SH & Co. to perform an engagement to report on the abridged financial statements derived from the audited financial statements pursuant to SEBI regulations and in accordance with format prescribed by SEBI. Describe in detail the nature of procedures that would be performed by M/s SH & Co., under relevant Standard on Auditing to provide an opinion on the abridged financial statements.*

8. *CA Rohan is the engagement partner for the audit of Horizon Ltd.'s complete set of financial statements for the year ended March 31, 2026. During the audit, he identified a material misstatement concerning the valuation of a specific class of inventory. As a result, CA Rohan concluded that it was necessary to express a qualified opinion on the complete set of financial statements.*

   Subsequently, Horizon Ltd. prepared summary financial statements derived from these audited financial statements and requested CA Rohan to issue a report on them. After performing the required procedures, CA Rohan is satisfied that the summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with the applied criteria.

   (i) Based on the requirements of relevant SA, advise CA Rohan on the specific additional disclosures he must include in auditor's report on the summary

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financial statements, considering the qualified opinion on the audited financial statements.

(ii) In the above case, if the auditor's report on the audited financial statements contains an adverse report, then which additional elements are required to be disclosed in the auditor's report on the summary financial statement?

9. Grow Ltd. has prepared and presented summary financial statements for the financial year ended 31st March 2026 for circulation among stakeholders. The summary statements are not accompanied by the audited financial statements. Instead, a note has been included stating that the audited financial statements are available at the company's registered office. As the statutory auditor of a company, explain the procedures you would perform to form an opinion on summary financial statements in accordance with relevant Standards on Auditing.

Answers to Test Your Understanding Questions

1. In the given situation, the approach of CA Lalita is proper. There is no bar upon accepting such an engagement even though she is the auditor of the company. Besides, she has intended to disclose this fact in "Emphasis of Matter Paragraph" of the audit report to be issued by her for such specific engagement.

2. She may consider it appropriate to indicate that the auditor's report is intended solely for specific users. Depending on the law or regulation 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. The draft para should read as under: -

> ***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.

3. 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.

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In the given case, financial statements of the entity are prepared in accordance with financial reporting provisions of a contract. It is a special purpose framework. The auditor of financial statements prepared in accordance with the special purpose framework is also offered to audit trade receivables appearing in the above financial statements, which relate to the audit of the elements of financial statements prepared in accordance with the special purpose framework. Hence, his audit approach should include considering requirements of both SA 800 and SA 805.

4. Compliance with the requirements of SAs relevant to the audit of a single financial statement or of a specific element of a financial statement may not be practicable when the auditor is not also engaged to audit the entity's complete set of financial statements. 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. 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. 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.

5. 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.

6. If 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, he can issue an unmodified opinion.

However, when auditor's report on audited financial statements contains a qualified opinion, the auditor's report on the summary financial statements shall, also contain following:

(a) State that the auditor's report on the audited financial statements contains a qualified opinion

(b) Describe:

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(i) The basis for the qualified opinion on the audited financial statements, and that qualified opinion in the auditor's report on the audited financial statements; and

(ii) The effect thereof on the summary financial statements, if any.

Hence, above points should be included by CA Madhur.

Answers to Case Scenario

1. (a) **2.** (c) **3.** (b) **4.** (a) **5.** (d)

Answers to Theoretical Questions

1. Refer to Para 3.6.

2. Refer to Para 2.1.

3. Refer to Para 4.6

4. In the given situation, Mr. BK has been engaged by XYZ Ltd. to report on summary financial statements derived from the financial statements audited by him in accordance with SAs. Mr. BK wants to determine whether the applied criteria are acceptable before accepting such assignment.

As per SA 810, "Engagements to Report on Summary Financial Statements", before accepting an engagement to report on summary of financial statements, the auditor shall determine whether applied criteria are acceptable. 'Applied criteria' refers to the criteria applied by management in the preparation of the summary financial statements.

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

- The nature of the entity;
- The purpose 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 not misleading in the circumstances.

5. Refer to Para 4.6.

6. ***Audit Report of Separate Engagement of Audit of PPE: As per SA 805, "Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement", if the auditor undertakes an engagement to report on a single financial statement or on a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of***

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financial statements, the auditor shall express a separate opinion for each engagement. 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, in the context of a separate audit of a specific element that is included in those financial statements, the auditor nevertheless considers it appropriate to express an unmodified opinion on that element, the auditor shall only do so if:

(i) The auditor is not prohibited by law or regulation from doing so;

(ii) 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

(iii) The specific element does not constitute a major portion of the entity's complete set of financial statements.

In the given situation, CA Rajni is statutory auditor of STS Ltd. for the financial year 2025-26 for the complete set of financial statements and has also assigned the audit of PPE as a separate engagement for the same financial year. Considering the same, it can be concluded that CA Rajni can give separate opinion on separate engagement i.e. adverse opinion for statutory audit and unmodified opinion for separate engagement provided the above conditions are satisfied.

7. Refer Para 4.3

8. (i) As per SA 810 "Engagements to Report on Summary Financial Statements", if 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, the auditor's report on the summary financial statements shall

the basis for the qualified opinion on the audited financial statements and the effect thereof, if any, on the summary financial statements

(ii) If the auditor's report on the audited financial statements contains an adverse opinion, the auditor's report on the summary financial statements shall, in addition to the elements:

- *State that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer of opinion;*
- *Describe the basis for that adverse opinion; and*

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- ***State that, as a result of the adverse opinion on the audited financial statements, it is inappropriate to express an opinion on the summary financial statements.***

9. Refer Para 4.3

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