SA 800: Spl. considerations: Audit of F.S. prepared using Spl. Purpose Framework.

FRF*

- General Purpose Framework (GPF)
  - FRF to meet financial info needs
    - of wider range of users.
- Spl. purpose framework (SPF)
  - FRF to meet financial info needs
    - of specific users.

* May be fair presentation or compliance framework.

Eg. of spl. purpose framework (specific users)

- Cash basis of accounting & cash flow info.
  - for creditors
  - Normally general users → Accrual
- F.R. provisions established by Regulator
  - eg listed cos → SEBI
- F.R. provisions of contract (E)
  - eg Loan agreement, project grant, Bond Indenture etc. (contract)

SA 800

- Accepting the audit
- Planning & Performing Audit
- Reporting

(I) Accepting the Audit (S.P.F)

⇒ check Acceptability of FRF ⇒ Depends on financial info. needs of specific users.

① Applicable FRF? (options)

F.R. stds established by authorised / recognised org.
Eg ICAI / M.C.A
AS / Ind AS

L/R may prescribe FRF for S.P.F.S. for certain types of entities.
Eg Requirements of regulator:
SEBI → Listed Entities → FRF?

Note: if any conflict b/w F.R. stds (A/c stds) & requirements of regulator, follow actions as per SA 210.

② Acceptability of FRF? Consider attributes as per SA 210.

- Nature of
  - Entity (Profit / N.P.O)
  - F.S. (complete set / single FS)
- Purpose (General / specific users)
- Law / Regulation (Eg Cos. ↓ Cos Act 2013 AS / Ind AS)

Eg Valuation of Net Assets for sale of Entity [P.C. ⇒ Net Assets (A − L)]

Vendor (seller) & Buyer ⇒ $\boxed{\text{contract}}$
↓
Seller FS.
Debtors > 90 days overdue
↓
$\boxed{\text{100\% provision}}$ Very prudent / Neutral

⇒ This is not neutral compared with financial info. as per General Purpose Framework

2. Planning & Performing Audit

SAs — All SA's applicable ✓
— Requirements ✓
— RM ⇒ Alt. Audit Pro ✓

★ Examples of SA's → Require Spl. consideration by Auditor ★

① SA 320 & SA 315 :

Materiality → (Normally) Judgement about materiality is based on common financial info. needs of users.

• (SPF) In audit of S.P.F.S., consider financial info. needs of intended users.
SRC

Spl. case [contract] • SA 315 requires auditor to understand entity's a/c policies.
FABRIN

If F.S. prepared as per contract, then understand "Sig. interpretations" of contract that mgt made to prepare FS.

?

• Interpretation is sig. when adoption of another reasonable interp. will produce material difference in FS.

• If S.P. FS prepared as per contract, mgt may agree threshold below which misst. will not be corrected.

(Q. As auditor do we still need to calculate materiality?)
(Yes)

• Still auditor has to determine materiality as per SA 320.

eg

Reliance Industries Limited

₹ 500 cr contract

L&T Construction

financials

① Contract 1. Revenue Recog. [60% → 50% to 60%. Recognise] Percentage of Completion Method.
2. RIL can anytime terminate contract.

Both Interp. — R/R ⇒ P.O.C.M. ✓ (acc. mgt)
or
R/R ⇒ contract complete ✓

Sig. Int. of contract

(2): L&T is reqd to submit accounts to RIL Ltd.

→ Any mistake below 20 lakhs won't be corrected (ignored)

→ Auditor still reqd to calculate materiality as per SA320.

(2) SA 260 "Communication with TCWG"

(Non-Exec)

(Listed → Audit Comm. / Chairman)

It requires auditor to determine appt. persons in governance structure to communicate

oversight (Alag) → Financial Reporting Process alag.
- G.P.F.S.
- S.P.F.S.

- Those responsible for oversight of S.P.F.S. maybe different from G.P.F.S.

(3) SA 700 Forming an opinion & reporting on F.S.

Audit Report (Spl. points):

- check if F.S. adequately describe AFRF.
  → if F.S. are as per contract, adequately describe significant interpretation of contract.

- AIR should describe
  - purpose of F.S.
  - intended users (if necessary) & *
  - Note in S.P.F.S. (contain this info.)

- If mgt has choice of FRFs → AIR (Mgt. Resp. Section) also refer to resp. of determining AFRF.

- If KAM communicated in AIR ⇒ SA 701 also applies.

- SA 720: Reports containing S.P.F.S. → to provide owners | others with info. related to S.P.F.S.
  ↓
  will be considered as Annual Report as per SA 720

- AR (G.P.F.S)

NCOR

M.V.R.G Section

AR (S.P.F.S)

~~EOM~~ $\boxed{\text{OM para}}$ There is MURG para in $\boxed{\text{AR}}$ of G.P.F.S

- Users → Alert! that F.S. prepared as per S.P.F

(Intro) S.P.F.S they can be used for other purposes.

?

eg Regulator (SEBI) may require entities to place S.P.F.S. on public record. (website)

To avoid misunderstanding, alert users of AR using E.O.M para explaing:

F.S. are prepared using Spl. purpose framework & may not be suitable for any other purpose.

(+) Indicate that AR is only for specific users & should not be distributed / used by other parties.

Imp :)