
Standard on Auditing (SA) 805

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

Overview of SA 805

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- ▶ Considerations when planning & performing the audit
- ▶ Forming an opinion and reporting considerations

Scope

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

Examples- Specific elements, Accounts or items

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

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

Auditor's Objective

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

Definitions

- ▶ For purposes of this SA, reference to:
 - ▶ “Element of a financial statement” or “element” means an “element, account or item of a financial statement”;
 - ▶ “Financial Reporting Standards” means the Accounting Standards promulgated by the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) or Accounting Standards, notified by the Central Government by publishing the same as the Companies (Accounting Standards) Rules, 2006, or the Accounting Standards for Local Bodies promulgated by the Committee on Accounting Standards for Local Bodies (CASLB) of the Institute of Chartered Accountants of India, as may be applicable;

Definitions (contd)

- ▶ A single financial statement (for example, a cash flow statement) or to a specific element of a financial statement (for example, cash and bank balances) includes the related notes. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information relevant to the financial statement or to the element.

Considerations –Acceptance of engagement - When the auditor has not done the engagement

- ▶ SA 200 (Revised) 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.

Considerations – Acceptance of engagement– When the auditor has not done the audit

- ▶ 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.
- ▶ Has no 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.
- ▶ Also does not have the audit evidence about the general quality of the accounting records or other accounting information that would be acquired in an audit of the entity's complete set of financial statements.
- ▶ Needs further evidence to corroborate audit evidence acquired from the accounting records.
- ▶ To discuss with the management another type of engagement in case application and adherence to SA's is not practicable

Acceptability of FRF

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

Considerations – Form of opinion

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

Form of opinion – Fair presentation framework

- ▶ May use one of the following phrases when expressing an unmodified opinion on a complete set of financial statements prepared in accordance with a fair presentation framework:
 - (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

Form of opinion- Compliance framework

- ▶ 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.

Planning & Performance Considerations

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

Forming Opinion & Reporting - *Considerations*

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

Modified Opinion/ EMP/OMP Para on Full FS

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

Exception does not apply to SFS