

**NEPAL STANDARDS ON AUDITING  
THE AUDITOR'S REPORT ON SPECIAL PURPOSE  
AUDIT ENGAGEMENTS**

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**Introduction**

1. The purpose of this Nepal Standard on Auditing (NSA) is to establish standards and provide guidance in connection with special purpose audit engagements including:
  - financial statements prepared in accordance with a comprehensive basis of accounting other than Nepal Accounting Standards or relevant practices;
  - specified accounts, elements of accounts, or items in a financial statement (hereafter referred to as reports on a component of financial statements);
  - compliance with contractual agreements; and
  - summarised financial statements.

This NSA does not apply to review, agreed-upon procedures or compilation engagements.

2. This NSA is to be read in conjunction with the Preface to Nepal Standards on Auditing.
3. This NSA contains the basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material.
4. This NSA needs only be applied to material matters.
5. **The auditor should review and assess the conclusions drawn from the audit evidence obtained during the special purpose audit engagement as the basis for an expression of opinion. The report should contain a clear written expression of opinion.**

### General Considerations

6. The nature, timing and extent of work to be performed in a special purpose audit engagement will vary with the circumstances. **Before undertaking a special purpose audit engagement, the auditor should ensure there is agreement with the client as to the exact nature of the engagement and the form and content of the report to be issued.**
7. In planning the audit work, the auditor will need a clear understanding of the purpose for which the information being reported on is to be used, and who is likely to use it. To avoid the possibility of the auditor's report being used for purposes for which it was not intended, the auditor may wish to indicate in the report the purpose for which the report is prepared and any restrictions on its distribution and use.
8. **The auditor's report on a special purpose audit engagement, except for a report on summarised financial statements, should include the following basic elements, ordinarily in the following layout:**
  - (a) **title;**<sup>1</sup>
  - (b) **addressee;**
  - (c) **opening or introductory paragraph:**
    - (i) **identification of the financial information audited; and**

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<sup>1</sup> It may be appropriate to use the term "Independent Auditor" in the title to distinguish the auditor's report from reports that might be issued by others, such as officers of the entity, or from the reports of other auditors who may not have to abide by the same ethical requirements as the independent auditor.

- (ii) **a statement of the responsibility of the entity's management and the responsibility of the auditor.**
- (d) **a scope paragraph (describing the nature of an audit):**
  - (i) **the reference to the NSAs applicable to special purpose audit engagements or relevant practices; and**
  - (ii) **a description of the work the auditor performed.**
- (e) **opinion paragraph containing an expression of opinion on the financial information;**
- (f) **date of the report;**
- (g) **auditor's address; and**
- (h) **auditor's signature.**

A measure of uniformity in the form and content of the auditor's report is desirable because it helps to promote the reader's understanding.

9. In the case of financial information to be supplied by an entity to government authorities, trustees, insurers and other entities there may be a prescribed format for the auditor's report. Such prescribed reports may not conform to the requirements of this NSA. For example, the prescribed report may require a certification of fact when an expression of opinion is appropriate, may require an opinion on matters outside the scope of the audit or may omit essential wording. **When requested to report in a prescribed format, the auditor should consider the substance and wording of the prescribed report and, when necessary, should make appropriate changes to conform to the requirements of this NSA, either by rewording the form or by attaching a separate report.**
10. When the information on which the auditor has been requested to report is based on the provisions of an agreement, the auditor needs to consider whether any significant interpretations of the agreement have been made by management in preparing the information. An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the financial information.
11. **The auditor should consider whether any significant interpretations of an agreement on which the financial information is based are clearly disclosed in the financial information.** The auditor may wish to make reference in the auditor's report on the special purpose audit engagement to the note within the financial information that describe such interpretations.

## **Reports on Financial Statements Prepared in Accordance With a Comprehensive Basis of Accounting Other Than Nepal Accounting Standards or Relevant Practices**

12. A comprehensive basis of accounting comprises a set of criteria used in preparing financial statements which applies to all material items and which has substantial support. Financial statements may be prepared for a special purpose in accordance with a comprehensive basis of accounting other than Nepal Accounting Standards or relevant practices (referred to herein as an “other comprehensive basis of accounting”). A conglomeration of accounting conventions devised to suit individual preference is not a comprehensive basis of accounting. Other comprehensive financial reporting frameworks may include the following:
- that used by an entity to prepare its income tax return,
  - the cash receipts and disbursements basis of accounting, and
  - the financial reporting provisions of a government regulatory agency.
13. **The auditor’s report on financial statements prepared in accordance with another comprehensive basis of accounting should include a statement that indicates the basis of accounting used or should refer to the note to the financial statements giving that information. The opinion should state whether the financial statements are prepared, in all material respects, in accordance with the identified basis of accounting.** The terms used to express the auditor’s opinion are “give a true and fair view” or “are presented fairly, in all material respects,” which are equivalent terms. Appendix 1 to this NSA gives examples of auditor’s reports on financial statements prepared in accordance with an other comprehensive basis of accounting.
14. The auditor would consider whether the title of, or a note to, the financial statements makes it clear to the reader that such statements are not prepared in accordance with Nepal Accounting Standards or relevant practices. For example, a tax basis financial statement might be entitled “Statement of Income and Expenses-Income Tax Basis.” **If the financial statements prepared on an other comprehensive basis are not suitably titled or the basis of accounting is not adequately disclosed, the auditor should issue an appropriately modified report.**

## **Reports on a Component of Financial Statements**

15. The auditor may be requested to express an opinion on one or more components of financial statements, for example, accounts receivable, inventory, an employee’s bonus calculation or a provision for income taxes. This type of engagement may be undertaken as a separate engagement or in conjunction with an audit of the entity’s financial statements. However, this type of engagement does not result in a report on the financial statements taken as a whole and,

- accordingly, the auditor would express an opinion only as to whether the component audited is prepared, in all material respects, in accordance with the identified basis of accounting.
16. Many financial statement items are interrelated, for example, sales and receivables, and inventory and payables. Accordingly, when reporting on a component of financial statements, the auditor will sometimes be unable to consider the subject of the audit in isolation and will need to examine certain other financial information. **In determining the scope of the engagement, the auditor should consider those financial statement items that are interrelated and which could materially affect the information on which the audit opinion is to be expressed.**
  17. **The auditor should consider the concept of materiality in relation to the component of financial statements being reported upon.** For example, a particular account balance provides a smaller base against which to measure materiality compared with the financial statements taken as a whole. Consequently, the auditor's examination will ordinarily be more extensive than if the same component were to be audited in connection with a report on the entire financial statements.
  18. To avoid giving the user the impression that the report relates to the entire financial statements, the auditor would advise the client that the auditor's report on a component of financial statements is not to accompany the financial statements of the entity.
  19. **The auditor's report on a component of financial statements should include a statement that indicates the basis of accounting in accordance with which the component is presented or refers to an agreement that specifies the basis. The opinion should state whether the component is prepared, in all material respects, in accordance with the identified basis of accounting.** Appendix 2 to this NSA gives examples of audit reports on components of financial statements.
  20. **When an adverse opinion or disclaimer of opinion on the entire financial statements has been expressed, the auditor should report on components of the financial statements only if those components are not so extensive as to constitute a major portion of the financial statements.** To do otherwise may overshadow the report on the entire financial statements.

### **Reports on Compliance With Contractual Agreements**

21. The auditor may be requested to report on an entity's compliance with certain aspects of contractual agreements, such as bond indentures or loan agreements. Such agreements ordinarily require the entity to comply with a variety of covenants involving such matters as payments of interest, maintenance of

- predetermined financial ratios, restriction of dividend payments and the use of the proceeds of sales of property.
22. **Engagements to express an opinion as to an entity's compliance with contractual agreements should be undertaken only when the overall aspects of compliance relate to accounting and financial matters within the scope of the auditor's professional competence.** However, when there are particular matters forming part of the engagement that are outside the auditor's expertise, the auditor would consider using the work of an expert.
  23. **The report should state whether, in the auditor's opinion, the entity has complied with the particular provisions of the agreement.** Appendix 3 to this NSA gives examples of auditor's reports on compliance given in a separate report and in a report accompanying financial statements.

### **Reports on Summarised Financial Statements**

24. An entity may prepare financial statements summarising its annual audited financial statements for the purpose of informing user groups interested in the highlights only of the entity's financial position and the results of its operations. **Unless the auditor has expressed an audit opinion on the financial statements from which the summarised financial statements were derived, the auditor should not report on summarised financial statements.**
25. Summarised financial statements are presented in considerably less detail than annual audited financial statements. Therefore, such financial statements need to clearly indicate the summarised nature of the information and caution the reader that, for a better understanding of an entity's financial position and the results of its operations, summarised financial statements are to be read in conjunction with the entity's most recent audited financial statements which include all disclosures required by the relevant financial reporting framework.
26. Summarised financial statements need to be appropriately titled to identify the audited financial statements from which they have been derived, for example, "Summarised Financial Information Prepared From the Audited Financial Statements for the Year Ended Ashad 3X, 20XX."
27. Summarised financial statements do not contain all the information required by the financial reporting framework used for the annual audited financial statements. Consequently, wording such as "true and fair" or "are presented fairly, in all material respects" is not used by the auditor when expressing an opinion on summarised financial statements.
28. **The auditor's report on summarised financial statements should include the following basic elements ordinarily in the following layout:**

- (a) **title;**<sup>2</sup>
- (b) **addressee;**
- (c) **an identification of the audited financial statements from which the summarised financial statements were derived;**
- (d) **a reference to the date of the audit report on the unabridged financial statements and the type of opinion given in that report;**
- (e) **an opinion as to whether the information in the summarised financial statements is consistent with the audited financial statements from which it was derived. When the auditor has issued a modified opinion on the unabridged financial statements yet is satisfied with the presentation of the summarised financial statements, the auditor's report should state that, although consistent with the unabridged financial statements, the summarised financial statements were derived from financial statements on which a modified auditor's report was issued;**
- (f) **a statement, or reference to the note within the summarised financial statements, which indicates that for a better understanding of an entity's financial performance and position and of the scope of the audit performed, the summarised financial statements should be read in conjunction with the unabridged financial statements and the auditor's report thereon;**
- (g) **date of the report;**
- (h) **auditor's address; and**
- (i) **auditor's signature.**

Appendix 4 to this NSA gives examples of auditor's reports on summarised financial statements.

### **Compliance with International Standards on Auditing**

- 29. Compliance with this NSA ensures compliance in all material respects with ISA 800 (The Auditor's Report on Special Purpose Audit Engagements).

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<sup>2</sup> See footnote 1.

## **Effective Date**

30. This Nepal Standards on Auditing becomes operative for the audit commencing on or after 01 Shrawan 2062 corresponding to 16 July 2005. Earlier application is encouraged.

## **Public Sector Perspective**

1. Some of the engagements considered “special purpose audit engagements” in the private sector are not special purpose in the public sector. For example, reports on financial statements prepared in accordance with a comprehensive basis of accounting other than NASs or relevant practices is ordinarily the norm, not the exception in the public sector. This has to be noted and guidance provided to the auditor on his or her responsibility to assess whether the accounting policies will result in misleading information.
2. A factor that also has to be considered is that public sector auditor’s reports are ordinarily public documents and therefore, it is not possible to restrict the report to specific users.

## **Appendix 1**

### **Examples of Reports on Financial Statements Prepared in Accordance With a Comprehensive Basis of Accounting Other Than Nepal Accounting Standards or Relevant Practices**

#### **A Statement of Cash Receipts and Disbursements**

"AUDITOR'S REPORT TO .....

We have audited the accompanying statement of ABC Company's cash receipts and disbursements for the year ended Ashad 3X, 20XX.<sup>3</sup> This statement is the responsibility of ABC Company's management. Our responsibility is to express an opinion on the accompanying statement based on our audit.

We conducted our audit in accordance with Nepal Standards on Auditing or relevant practices. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Company's policy is to prepare the accompanying statement on the cash receipts and disbursements basis. On this basis revenue is recognised when received rather than when earned, and expenses are recognised when paid rather than when incurred.

In our opinion, the accompanying statement gives a true and fair view of (or is presented fairly, in all material respects) the revenue collected and expenses paid by the Company during the year ended Ashad 3X, 20XX in accordance with the cash receipts and disbursements basis as described in Note X.

AUDITOR

Date

Address"

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<sup>3</sup> Provide suitable identification, such as by reference to page numbers or by identifying the individual statement.

## **Financial Statements Prepared on the Entity's Income Tax Basis**

"AUDITOR'S REPORT TO .....

We have audited the accompanying income tax basis financial statements of ABC Company for the year ended Ashad 3X, 20XX.<sup>4</sup> These statements are the responsibility of ABC Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with Nepal Standards on Auditing or relevant practices. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of (or are presented fairly, in all material respects) the financial position of the Company as of Ashad 3X, 20XX and its revenues and expenses for the year then ended, in accordance with the basis of accounting used for income tax purposes as described in Note X.

AUDITOR

Date  
Address"

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<sup>4</sup> See footnote 3.

## Appendix 2

### Example of Reports on Components of Financial Statements

#### Schedule of Accounts Receivable

"AUDITOR'S REPORT TO .....

We have audited the accompanying schedule of accounts receivable of ABC Company for the year ended Ashad 3X, 20XX.<sup>5</sup> This schedule is the responsibility of ABC Company's management. Our responsibility is to express an opinion on the schedule based on our audit.

We conducted our audit in accordance with Nepal Standards on Auditing or relevant practices. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the schedule. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of accounts receivable gives a true and fair view of (or is presented fairly, in all material respects) the accounts receivable of the Company as of Ashad 3X, 20XX in accordance with ...<sup>6</sup>

AUDITOR

Date  
Address"

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<sup>5</sup> See footnote 3.

<sup>6</sup> Indicate the Nepal Accounting Standards or relevant practices, the terms of an agreement or any described basis of accounting.

## **Schedule of Profit Participation**

"AUDITOR'S REPORT TO .....

We have audited the accompanying schedule of DEF's profit participation for the year ended Ashad 3X, 20XX.<sup>7</sup> This schedule is the responsibility of ABC Company's management. Our responsibility is to express an opinion on the schedule based on our audit.

We conducted our audit in accordance with Nepal Standards on Auditing or relevant practices. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the schedule. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of profit participation gives a true and fair view of (or is presented fairly, in all material respects) DEF's participation in the profits of the Company for the year ended Ashad 3X, 20XX in accordance with the provisions of the employment agreement between DEF and the Company ...(specify the date).

AUDITOR

Date  
Address"

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<sup>7</sup> See footnote 3.

### **Appendix 3**

#### **Examples of Reports on Compliance**

##### **Separate Report**

"AUDITOR'S REPORT TO .....

We have audited ABC Company's compliance with the accounting and financial reporting matters of sections XX to XX inclusive of the Indenture ...(specify the date) with DEF Bank.

We conducted our audit in accordance with Nepal Standards on Auditing or relevant practices applicable to compliance auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether ABC Company has complied with the relevant sections of the Indenture. An audit includes examining appropriate evidence on a test basis. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Company was, in all material respects, in compliance with the accounting and financial reporting matters of the sections of the Indenture referred to in the preceding paragraphs as of Ashad 3X, 20XX.

AUDITOR

Date

Address"

## Report Accompanying Financial Statements

"AUDITOR'S REPORT TO .....

We have audited the accompanying balance sheet of the ABC Company as of Ashad 3X, 20XX, and the related statements of income, and cash flows for the year then ended (the reference can be by page numbers). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We have also audited ABC Company's compliance with the accounting and financial reporting matters of sections XX to XX inclusive of the Indenture ...(specify the date) with DEF Bank.

We conducted our audits in accordance with Nepal Standards on Auditing or relevant practices applicable to the audit of financial statements and to compliance auditing. Those Standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether ABC Company has complied with the relevant sections of the Indenture. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements give a true and fair view of (or are presented fairly, in all material respects) the financial position of the Company as of Ashad 3X, 20XX, and of the results of its operations and its cash flows for the year then ended in accordance with Nepal Accounting Standards or relevant practices and comply with (Quote the relevant statute or law) ...(For example: Company Act, 2053/ Commercial Bank Act, 2060), etc.; and
- (b) the Company was, in all material respects, in compliance with the accounting and financial reporting matters of the sections of the Indenture referred to in the preceding paragraphs as of Ashad 3X, 20XX.

AUDITOR

Date  
Address"

## **Appendix 4**

### **Examples of Reports on Summarised Financial Statements**

#### **When an Unqualified Opinion Was Expressed on the Annual Audited Financial Statements**

"AUDITOR'S REPORT TO .....

We have audited the financial statements of ABC Company for the year ended Ashad 3X, 20XX, from which the summarised financial statements<sup>8</sup> were derived, in accordance with Nepal Standards on Auditing or relevant practices. In our report ...(specify the date) we expressed an unqualified opinion on the financial statements from which the summarised financial statements were derived.

In our opinion, the accompanying summarised financial statements are consistent, in all material respects, with the financial statements from which they were derived.

For a better understanding of the Company's financial position and the results of its operations for the period and of the scope of our audit, the summarised financial statements should be read in conjunction with the financial statements from which the summarised financial statements were derived and our audit report thereon.

AUDITOR

Date  
Address"

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<sup>8</sup> See footnote 3.

## **When a Qualified Opinion Was Expressed on the Annual Audited Financial Statements**

"AUDITOR'S REPORT TO .....

We have audited the financial statements of ABC Company for the year ended Ashad 3X, 20XX, from which the summarised financial statements<sup>9</sup> were derived, in accordance with Nepal Standards on Auditing or relevant practices. In our report ...(specify the date) we expressed an opinion that the financial statements from which the summarised financial statements were derived gave a true and fair view of (or were presented fairly, in all material respects) ... except that inventory had been overstated by Rs....

In our opinion, the accompanying summarised financial statements are consistent, in all material respects, with the financial statements from which they were derived and on which we expressed a qualified opinion.

For a better understanding of the Company's financial position and the results of its operations for the period and of the scope of our audit, the summarised financial statements should be read in conjunction with the financial statements from which the summarised financial statements were derived and our audit report thereon.

AUDITOR

Date  
Address"

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<sup>9</sup> See footnote 3.