

SA 700 (Revised) – Forming an Opinion and reporting on Financial Statements (w.e.f. 01.04.2018)

Meaning & Types of Audit Reports

Meaning

Reports in which auditor expresses his opinion on financial statements.

- For General purpose F.S. – SA 700, 701, 705 & 706 will apply.
- For Special Purpose F.S. – SA 800 along with 700, 701, 705 & 706 will apply.

Types

A. Unmodified reports

Reports issued when auditor concludes that F.S. are prepared in all material respects in accordance with applicable FRF.

B. Modified Reports

B.1 – Matters that affect Audit Opinion.

B.1.1 – Qualified Opinion

B.1.2 – Adverse Opinion

B.1.3 – Disclaimer of Opinion

Details of B.1 is dealt by SA 705.

B.2 – Matters that do not affect Audit opinion

B.2.1 – With EOM Para

B.2.1 – With OM Para

Details of B.2 is dealt by SA 706.

Compiled by:
CA. PANKAJ GARG

Elements of an Unmodified Audit Report

1	Title	"Independent Auditor's Report" – so as to distinguish from reports issued by others.	
2	Addressee	Auditor's Report shall be addressed as appropriate. Generally, it is addressed to those for whom it is prepared.	
3	Opinion Section	Fair Presentation Framework	In our opinion, the F.S. present fairly in all material respects in accordance with [applicable FRF]; Or In our opinion, the F.S. gives a true and fair view of in accordance with [applicable FRF]
Compliance Framework		In our opinion, the F.S. present, in all material respect in accordance with [applicable FRF]	
Opinion Para shall also cover the following: <ul style="list-style-type: none">Identify the Entity.Identify the title of each financial statement.Specify the period/date covered by each F.S.State that F.S. have been audited.			
4	Basis for Opinion	<ul style="list-style-type: none">States that audit was conducted in accordance with SAs.Refer to Section of Auditor's report that describes the auditor's responsibilities.Compliance of Ethical requirements including independence.Auditor's believing that they had obtained sufficient and appropriate audit evidence to provide a basis for the opinion.	
5	Going Concern	Where applicable, auditor shall report in accordance with SA 570.	
6	Key Audit Matter	In case of Listed Entity, auditor shall communicate Key Audit Matters in Auditor's Report in accordance with SA 701.	
7	Management Responsibilities for the F.S.	<ul style="list-style-type: none">To prepare F.S. in accordance with applicable FRF.Maintenance of adequate records for safeguarding of assets and prevention and detection of fraud.Making reasonable and prudent judgements and estimates.Design, Implementation and maintenance of Internal Control.Assessing the appropriateness of Going Concern basis of accounting.Overseeing the financial reporting process.	
8	Auditor's responsibilities for the Audit of F.S.		
9	Other Reporting responsibilities	<ul style="list-style-type: none">Heading: "Reporting on Other Legal and Regulatory Requirements".Will include reporting of CARO, 2016, reporting u/s 143(3) of Companies Act, 2013, Rule 11 of CAAR, 2014.	
10	Signature	In personal name and name of firm, along with the membership number and firm registration number.	
11	Place	The city where audit report is signed.	
12	Date	It should not be earlier than date on which audit evidences are collected.	

- State the objective of auditor to obtain reasonable assurance that F.S. as a whole are free from material misstatements & issue the auditor's report that includes an auditor's opinion.
- Explanation w.r.t. reasonable assurance and application of concept of materiality.
- Statement that auditor exercises professional judgement and maintain professional skepticism throughout audit.
- State auditor's responsibilities w.r.t.
 - Identifying & assessing the RMM.
 - Design & perform audit procedures responsive to assessed risks.
 - Obtain SAAE.
 - Understanding of Internal Control.
 - Expressing opinion on adequacy and operating effectiveness of Internal Financial Control.
 - Evaluation of appropriateness of Accounting policies & reasonableness of accounting estimates.
 - Conclude on appropriateness of management use of Going Concern basis of accounting.
 - Evaluate overall presentation, structure & content of F.S.
- State Auditor's responsibilities w.r.t.:
 - Matters communicated to TCWG.
 - Providing statement to TCWG on compliance of Ethical requirements.
 - Determining Key Audit matters out of matters communicated to TCWG.

SA 701 "Communicating Key Audit Matters in the Independent Auditor's Report" (w.e.f. 01.04.2018)

Applicability

- SA 701 applies to audit of complete set of general purpose financial statements of listed entities and circumstances when auditor decides to communicate key audit matter in the auditor's report.
- SA 705 prohibits the auditor from communicating key audit matters when the auditor disclaims the opinion on the

Meaning and Purpose of Key Audit Matters

Meaning: Those matters that in the auditor's judgment were of most significance in audit of financial statement of current period.
These are selected from matters communicated with TCWG.

Purpose:

- To enhance the communicative value of the auditor's report by providing greater transparency.
- To provide additional information to intended users of F.S. to assist them in understating those matters that in auditor's judgment were of most significance.
- To assist intended users in understanding the entity & areas of significant management judgment.
- To provide a basis to further engage with management and TCWG about certain matters relating to the entity.

Considerations for determining Key Audit Matters

Key audit Matters are to be determined from the matters communicated to TCWG, Considering the following:

- Areas of higher assessed RMM.
- Significant auditor judgment relating to financial statement that involved management judgment for Ex. Accounting estimates having high estimation uncertainty.
- Effect of significant event or transactions occurred during the year.

Manner of Reporting

- Use separate section titled as "Key audit Matter's."
- Use introductory language in this section as – "Key audit Matters are those matters that in the auditor's judgement, were of most significance in the audit of financial statements of current period and these matters were addressed in the context of audit of financial statements as a whole and auditor does not provide a separate opinion on these matters".
- Description of each key audit matter shall follow the introduction.
- Description of key audit matter shall address the reason why the matter was considered as key audit matter.

Circumstances in which a matter determined to be key audit matter is not communicated

- Law or regulation precludes public disclosure about the matter; or,
- Audit determines that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefit of such communication.
- It will not be applied if entity has publicly disclosed information about the matter.

Modified opinion Vs. Going concern Vs. Key Audit Matters

- Key audit matter is not a substitute for modified opinion under SA 705 or reporting required under SA 570 w.r.t. existence of material uncertainty as to events that cast significant doubt on an entity ability to continue as Going Concern.
- Auditor shall report modification / Going concern in accordance with applicable SA, and include a reference to basis for Qualified (Adverse) opinion or the material ascertaining related to going concern section in the Key Audit Matters Section.

Compiled by: CA. PANKAJ GARG

Chapter 22 – Special Audit Assignments

ENVIRONMENT AUDIT

Meaning	Management tool comprising a systematic, documented, periodic & objective evaluation of how well organisation, management and equipment are performing with the aim of helping to safeguard the environment by:
	(i) Facilitating management control of environmental Process.
	(ii) Assessing compliance with company policies, which would include meeting regulatory requirements.
Objectives	1. To evaluate the efficacy of utilisation of resources of man, machines and materials.
	2. To identify areas of environmental risks and liabilities and weakness(es) of management system and problems in compliance of the directives of the regulatory agencies.
	3. To control generation of pollutants and waste.
Statutory Requirement	Every person carrying on an industry, operation or process requiring consent
	• u/s 25 of the Water (Prevention and Control of Pollution) Act, 1974 or
	• u/s 21 of the Air (Prevention and Control of Pollution) Act, 1981 or both or
	• authorisation under the Hazardous Waste (Management and Handling) Rules, 1989 issued under Environment Protection Act, 1986
	shall submit an environment audit report for the financial year ending the 31 st march in Form V to the concerned State Pollution Control Board on or before the 15 th day of May every year.
Areas of Environment Audit	
1. Layout and Design	Examine Installation of Pollution Control devices and Provisions for up gradation of Pollution Control measures.
2. Management of Resources	To examine that resources are best used with minimum waste.
3. Pollution Control System	Examine existence of Pollution control System & Inquire whether more measures are required.
4. Emergent Safety Arrangement	To Examine <u>existence and adequacy</u> .
5. Medical & Healthcare facilities	To Examine <u>existence and adequacy</u> .
6. Industrial Hygiene	To Examine existence of proper system to ensure hygienic environment.
7. Occupational Health	Examine the focus of industry to the diseases which are prone to that industry.
8. Information Assimilation and Reporting system	Examine the Generation of information required under Environmental Laws and Preparation of Compliance Report w.r.t. environmental laws.
9. Environmental Impact Assessment (EIA) Methodology	<ul style="list-style-type: none"> It is a prerequisite to start an industry. It is a planning tool in the decision making process by evaluating the environment consequences of a proposed activity before action is taken. It helps in sustainable development. Auditor is required to examine whether the EIA Report accommodates the deviation expected.
10. Compliance to Regulatory mechanism	<ul style="list-style-type: none"> Examine whether a system exists to trained & instruct the staff on regular basis, to avoid making the Board/Owner liable to prosecution and penalty.
Format of Environment Statement	(a) Name/address of owner/occupier of the industry, operation or process.
	(b) Date of last environmental audit report submitted
	(c) Consumption of water and other raw materials as input.
	(d) Pollution generated in air and water with output and types of pollutants and deviation from standard.
	(e) Generation of hazardous waste in current year and previous year from processes or from pollution control facility.
	(f) Quantity of solid waste generated during current year and previous year.
	(g) The disposal practice for different type waste.
	(h) The practice of conservation of natural resources.
	(i) The additional investment proposal for environmental protection.

ENERGY AUDIT

Meaning	Activity that assesses energy use pattern of a factory/energy consuming equipment and identifies saving opportunities.
Functions	1. Quantify energy costs and quantities.
	2. Correlate trends of production or activity to energy costs.
	3. Devise energy database formats – by department, consumer, product, etc.
Approach	4. Check the compliance of the organisation for policy and regulation aspects.
	5. Highlight areas that need attention for detailed investigation.
	6. Conduct preliminary and detailed energy audits which should include the following:
	<ul style="list-style-type: none"> Data collection and analysis Measurements, mass & energy balances. Reviewing energy procurement practices. Identification of energy efficiency projects Establishing action plan including energy saving targets, staffing requirements, etc. Recommendation on goal setting for energy saving, record keeping, reporting and energy accounting etc.
Phase	- I
	<ul style="list-style-type: none"> Assess past performance of factory to establish energy efficiency indicator so as to determine energy consumption p.u. These figures need to be compared with the average values in order to assess the comparative performance.
	- II
Phase	- II
	If it is found that there is any scope for reduction in specific energy consumption, auditor has to perform preliminary audit.
	- III
	Detailed technical and economic analyses of energy efficiency measures, especially those involving large capital investment or long payback periods.
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Chapter 21 – PEER REVIEW

MEANING, OBJECTIVES & SCOPE OF PEER REVIEW

Meaning	<ul style="list-style-type: none"> Examination & Review of systems & procedures to determine whether they have been put in place by PU for ensuring the quality of attestation services as envisaged and implied/ mandated by the technical standards, Ethical Standards & Professional Standards and whether these were effective or not during the period under review.
Objectives	<ol style="list-style-type: none"> To ensure that members while carrying out assurance service assignments comply with Technical, Professional and Ethical Standards issued by the Institute; To ensure that member has in place proper system, including documentation thereof, for maintaining the quality of assurance services; To ensure adherence to various statutory & regulatory requirements. To identify and address patterns of non-compliance with quality control standards.
Scope	<p>Peer Review process shall apply to all assurance services provided by PU. While carrying out review, reviewer examines assurance engagement records of PU so as to cover the following:</p> <ol style="list-style-type: none"> Compliance with Technical, Professional & Ethical Standards; Quality of reporting. Systems and procedures for carrying out assurance services. Training programmes for staff concerned with assurance functions, including availability of appropriate infrastructure. Compliance with directions and/or guidelines issued by the Council including Fees to be charged, Number of audits undertaken, register for Assurance Engagements conducted during the year and such other related records. Compliance with directions and/or guidelines issued by the Council in relating to article assistants and/or audit assistants, including attendance register, work diaries, stipend payments, and such other related records.

Technical, Ethical & Professional Standards

- (1) AS issued by ICAI and/or prescribed and notified by the C.G. of India;
- (2) Standards issued by the ICAI including
 - (a) Engagement standards
 - (b) Statements
 - (c) Guidance notes
 - (d) Standards on Internal Audit
 - (e) Statements on Quality Control
 - (f) Notifications/Directions/Announcements/Guide lines/Pronouncements/Professional standards issued by the Council or any of its committees.
- (3) Framework for Preparation & presentation of F.S.,
- (4) Framework of statements and SA, SAE, SQC
- (5) Guidance Notes on related services issued by ICAI;
- (6) Provisions of the various relevant statutes and/or regulations which are applicable in the context of the specific engagements.

Assurance Services is used interchangeably with Audit Services, Attestation Functions & Audit Functions, but shall not include the following:

1. Management Consultancy Engagements;
2. Representation before various Authorities;
3. Engagements to prepare tax returns or advising clients in taxation matters;
4. Engagements for compilation of F.S.;
5. Engagements solely to assist the client in preparing, compiling or collating information other than F.S.;
6. Testifying as an expert witness;
7. Providing expert opinion on points of principle, such as AS or the applicability of certain laws, on the basis of facts provided by the client; and
8. Engagement for Due diligence

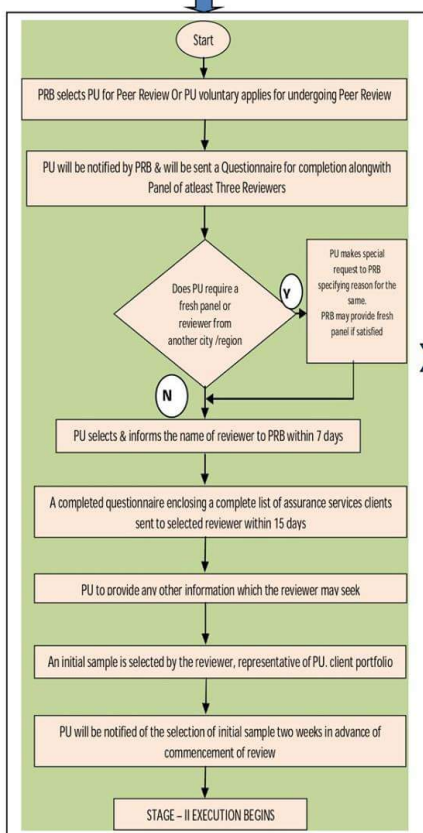
Miscellaneous

Assessment of Independence	<ul style="list-style-type: none"> Does the PU have a policy to ensure independence, objectivity and integrity, on the part of partners and staff? Who is responsible for this policy? Does the PU communicate these policies and the expected standards of professional behavior to all staff? Does the PU monitor compliance with policies and procedures relating to independence? Does the PU periodically review its association with clients to ensure objectivity and independence?
Collection of Evidences	<p>A Peer Reviewer collects evidence by applying the following methods:</p> <ol style="list-style-type: none"> Inspection: It includes scrutiny of documentation & other records of PU. Observation: of procedures/processes followed in the PU. Inquiries: from the responsible person of PU, even by the use of questionnaire.
Inherent Limitations of Peer Review	<ul style="list-style-type: none"> Review is conducted in accordance with Statement on Peer Review. Review would not necessarily disclose all weaknesses in compliance of technical standards and maintenance of quality of assurance services since it would be based on selective tests. As there are inherent limitations in the effectiveness of any system of quality control which happens to be subject-matter of review, departure from the system may occur & may not be detected.

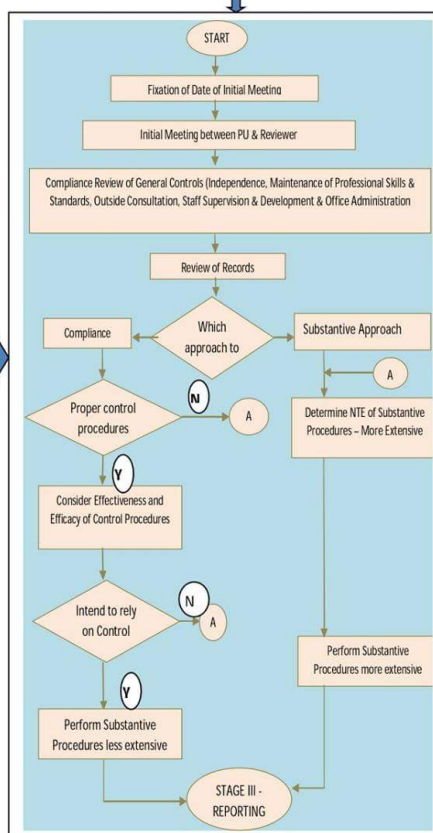
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PEER REVIEW PROCESS

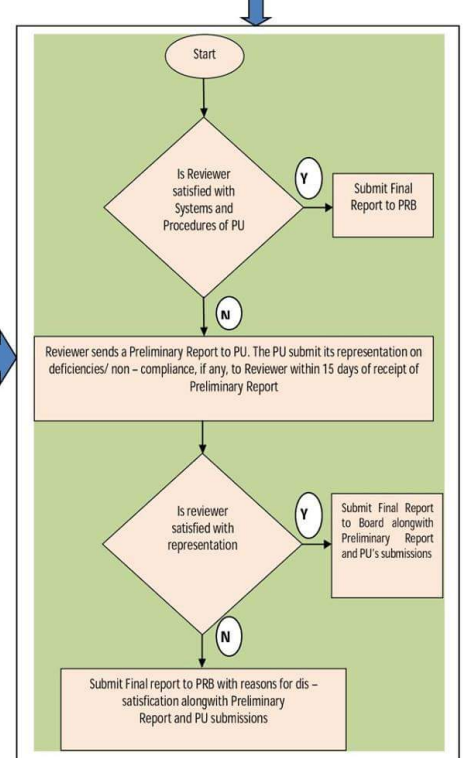
Stage I - Planning



Stage II - Execution



Stage III - Reporting



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SA 705 – Modifications to the Opinion in the Independent Auditor's Report

Types of modified Opinion

Qualified	Issued when: F.S. are misstated having material but not pervasive effect. Or Auditor not been able to collect sufficient appropriate audit evidence for transactions that are having material but not pervasive effect.	
Adverse	Issued when F.S. are misstated having material and pervasive effect.	
Disclaimer	Issued when auditor not been able to collect sufficient appropriate audit evidence for transactions that are having material and pervasive effect.	
	Pervasive	Not Pervasive
Material Misstatement	QUALIFIED	ADVERSE
SAAE not obtained for material Transactions	QUALIFIED	DISCLAIMER

Considerations while issuing modified Opinion

Opinion Section

Use the heading –

- Qualified Opinion
- Adverse Opinion
- Disclaimer of Opinion.

Wordings of Opinion:

Qualified	Except for the effects of matters prescribed in "Basis of Qualified Opinion" section, the F.S. have been prescribed fairly in all material respects in accordance with [applicable FRF]
Adverse	In auditor's opinion, because of significance of the matters described in "Basis of Adverse Opinion" section, the F.S. does not give a true and fair view of _____ in accordance with [applicable FRF].
Disclaimer	Because of significance of matters described in the "Basis for Disclaimer of Opinion" section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for audit opinion on F.S.

Basis for Opinion Section

Amend the heading – Basis for Qualified Opinion
Basis for Adverse Opinion
Basis for Disclaimer of Opinion.

- Include a description of matter giving rise to modification.

Cause of Modification	Description
Material Misstatement in Amount	<ul style="list-style-type: none"> • Description of Misstatement. • Quantification of financial effect, if determinable. • If not determinable, state the fact.
Material Misstatement in Disclosure	Explanation how the disclosures are misstated.
Material Misstatement due to non-disclosure of required information	Describe nature of omitted information. And Include the omitted disclosure provided it is practicable.
Inability to obtain SAAE	State the reason for inability.

- Amend the statement w.r.t. auditor believing that audit evidences are sufficient and appropriate to provide a basis for "Qualified Opinion" or "Adverse Opinion".
- In case of disclaimer, auditor's report shall not include the reference to section of auditor's report that describes the auditor's responsibilities and statement w.r.t. auditor's believing that sufficient appropriate audit evidence obtained.

Auditor's Responsibility Section

When an auditor disclaims the opinion, the auditor shall amend the description of auditor's responsibilities to include only the following:

- Statement that the auditor's responsibility is to conduct an audit in accordance with Standard on Auditing and to issue Auditor's Report.
- Statement that because of significance of matters described in basis for disclaimer of opinion section, auditor was not able to obtain SAAE to provide a basis for an audit opinion.
- Statement about auditor's independence and other ethical requirements.

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