

# Audit Reports

## 11.1 – Meaning & Types of Reports and SA 700

### Meaning & Types of Audit Reports

### SA 700 – Forming an Opinion and Reporting on F.S.

Meaning	Reports in which auditor expresses his opinion on financial statements.
	<ul style="list-style-type: none"> <li>For General purpose F.S. – SA 700, 701, 705 &amp; 706 will apply.</li> <li>For Special Purpose F.S. – SA 800 along with 700, 701, 705 &amp; 706 will apply.</li> </ul>
Types	<b>A. Unmodified reports</b>
	Reports issued when auditor concludes that F.S. are prepared in all material respects in accordance with applicable FRF.
	<b>B. Modified Reports</b>
	<b>B.1 – Matters that affect Audit Opinion.</b>
	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>B.2 – Matters that do not affect Audit opinion</b>	
B.2.1 – With EOM Para	
B.2.1 – With OM Para	
Details of B.2 is dealt by SA 706.	

### Scope of SA 700

SA 700 deals with the following:

- Auditor's responsibility to form an opinion on the F.S.
- Form & content of auditor's report issued as a result of an audit of F.S.
- Promotes consistency in audit reports.

Compiled by:  
**CA. PANKAJ GARG**

### Forming an Opinion on F.S.

Auditor is required to form an opinion on whether the F.S. are prepared in all material respects in accordance with the applicable FRF. To form this opinion, auditor needs to conclude as to whether he has obtained **reasonable assurance** that FS as a whole are free of material misstatements, whether due to fraud or error. The conclusion shall take into account:

- Auditor's conclusion, whether sufficient appropriate audit evidence has been obtained;
- Auditor's conclusion, whether uncorrected misstatements are material; and
- The evaluations mentioned below:
  - Whether the F.S. are prepared, in all material respects, in accordance with the requirements of the applicable FRF.
  - Whether, in view of the requirements of the applicable FRF:
    - The F.S. adequately disclose the significant accounting policies selected and applied;
    - The accounting policies selected and applied are consistent with the applicable FRF and are appropriate;
    - The accounting estimates made by management are reasonable;
    - The information presented in F.S. is relevant, reliable, comparable & understandable;
    - The F.S. provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the F.S., and
    - The terminology used in the F.S., including the title of each F.S., is appropriate.
  - When the F.S. are prepared in accordance with a fair presentation framework, auditor is required to evaluate whether the F.S. achieve fair presentation by considering the following:
    - The overall presentation, structure and content of the F.S.; and
    - Whether the F.S., including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.
  - Whether the F.S. adequately refer to or describe the applicable FRF.

## 11.2 – Forming an Opinion and Reporting on F.S. (SA 700)

### Form of Opinion

- (a) Auditor shall express an **unmodified opinion** when the auditor concludes that the F.S. are prepared, in all material respects, in accordance with the applicable FRF.
- (b) Auditor shall **modify the opinion** in the auditor's report in accordance with SA 705 if the auditor:
- concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
  - is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

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### Elements of an Unmodified Audit Report

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

1. 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.
2. Explanation w.r.t. reasonable assurance and application of concept of materiality.
3. Statement that auditor exercises professional judgement and maintain professional skepticism throughout audit.
4. 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 A/cing 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.
5. 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.

## 11.3 - Communicating Key Audit Matters in the Independent Auditor's Report (SA 701)

### 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:

- (a) To enhance the communicative value of the auditor's report by providing greater transparency.
- (b) 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.
- (c) To assist intended users in understanding the entity & areas of significant management judgment.
- (d) 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:

- (a) Areas of higher assessed RMM.
- (b) Significant auditor judgment relating to financial statement that involved management judgment for Ex. Accounting estimates having high estimation uncertainty.
- (c) 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**

## 11.4 - Modifications to the Opinion in the Independent Auditor's Report (SA 705)

### Types of modified Opinion

<b>Qualified</b>	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.	
<b>Adverse</b>	Issued when F.S. are misstated having material and pervasive effect.	
<b>Disclaimer</b>	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	<b>ADVERSE</b>	<b>QUALIFIED</b>
SAAE not obtained for material Transactions	<b>DISCLAIMER</b>	<b>QUALIFIED</b>

### Considerations while issuing modified Opinion

Opinion Section	Basis for Opinion Section	Auditor's Responsibility Section																
<p>Use the heading –</p> <ul style="list-style-type: none"> <li>Qualified Opinion</li> <li>Adverse Opinion</li> <li>Disclaimer of Opinion.</li> </ul> <p>Wordings of Opinion:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%; text-align: center; vertical-align: middle;"><b>Qualified</b></td> <td>                     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]                 </td> </tr> <tr> <td style="text-align: center; vertical-align: middle;"><b>Adverse</b></td> <td>                     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].                 </td> </tr> <tr> <td style="text-align: center; vertical-align: middle;"><b>Disclaimer</b></td> <td>                     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.                 </td> </tr> </table>	<b>Qualified</b>	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]	<b>Adverse</b>	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].	<b>Disclaimer</b>	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.	<p>Amend the heading – Basis for Qualified Opinion                      Basis for Adverse Opinion                      Basis for Disclaimer of Opinion.</p> <ul style="list-style-type: none"> <li>Include a description of matter giving rise to modification.</li> </ul> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #f4a460;">Cause of Modification</th> <th style="background-color: #f4a460;">Description</th> </tr> </thead> <tbody> <tr> <td style="background-color: #f4a460;"><b>Material Misstatement in Amount</b></td> <td> <ul style="list-style-type: none"> <li>Description of Misstatement.</li> <li>Quantification of financial effect, if determinable.</li> <li>If not determinable, state the fact.</li> </ul> </td> </tr> <tr> <td style="background-color: #f4a460;"><b>Material Misstatement in Disclosure</b></td> <td>                     Explanation how the disclosures are misstated.                 </td> </tr> <tr> <td style="background-color: #f4a460;"><b>Material Misstatement due to non-disclosure of required information</b></td> <td>                     Describe nature of omitted information.                       And                      Include the omitted disclosure provided it is practicable.                 </td> </tr> <tr> <td style="background-color: #f4a460;"><b>Inability to obtain SAAE</b></td> <td>                     State the reason for inability.                 </td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>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".</li> <li>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.</li> </ul>	Cause of Modification	Description	<b>Material Misstatement in Amount</b>	<ul style="list-style-type: none"> <li>Description of Misstatement.</li> <li>Quantification of financial effect, if determinable.</li> <li>If not determinable, state the fact.</li> </ul>	<b>Material Misstatement in Disclosure</b>	Explanation how the disclosures are misstated.	<b>Material Misstatement due to non-disclosure of required information</b>	Describe nature of omitted information.  And Include the omitted disclosure provided it is practicable.	<b>Inability to obtain SAAE</b>	State the reason for inability.	<p>When an auditor disclaims the opinion, the auditor shall amend the description of auditor's responsibilities to include only the following:</p> <ul style="list-style-type: none"> <li>Statement that the auditor's responsibility is to conduct an audit in accordance with Standard on Auditing and to issue Auditor's Report.</li> <li>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.</li> <li>Statement about auditor's independence and other ethical requirements.</li> </ul>
<b>Qualified</b>	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]																	
<b>Adverse</b>	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].																	
<b>Disclaimer</b>	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.																	
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<b>Material Misstatement due to non-disclosure of required information</b>	Describe nature of omitted information.  And Include the omitted disclosure provided it is practicable.																	
<b>Inability to obtain SAAE</b>	State the reason for inability.																	

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**CA. PANKAJ GARG**

## 11.5 - Emphasis of Matter Paragraph & Other Matter Paragraph in the Independent Auditor's Report (SA 706)

### Emphasis of Matter Para

<b>1</b>	<b>Meaning</b>
	A Para included in the Auditor's report that refers to a matter appropriately reflected/ disclosed in the financial statement that in the auditor's judgment is of such significance that it is fundamental to the user's understanding of financial statement.
<b>2</b>	<b>Requirements</b>
	<ul style="list-style-type: none"> <li>EOM Para is not a substitute of Key Audit Matter or Modified Opinion.</li> <li>EOM should be included within a separate section titled as "Emphasis of Matter".</li> <li>EOM should refer only to information presented/disclosed in the financial statements.</li> <li>It must be indicated that auditor's opinion is not modified in respect of this matter.</li> </ul>
<b>3</b>	<b>Circumstance when EOM Para can be issued</b>
	<ul style="list-style-type: none"> <li>(a) Uncertain situation as to future outcome of an exceptional litigation.</li> <li>(b) Significant subsequent events.</li> <li>(c) Early application of new AS in advance of its effective date.</li> <li>(d) Occurrence of major catastrophe that may have a significant effect on entity financial position.</li> </ul>
<b>4</b>	<b>Location in Audit Reports</b>
	Immediately following the "Basis of Opinion Section".

### Other Matter Para

<b>1</b>	<b>Meaning</b>
	A Para included in Auditors Report that refers to a matter other than presented/ disclosed in financial statement that in the auditors judgment is relevant for users understanding of audit auditors responsibilities or auditor's report.
<b>2</b>	<b>Requirements</b>
	<ul style="list-style-type: none"> <li>OM Para is not a substitute of Key Audit Matter.</li> <li>OM Para should be included in the audit report in a separate section termed as "Other Matter".</li> <li>Differentiate "Other Matter" with Key Audit Matter".</li> </ul>
<b>3</b>	<b>Location in Audit Reports</b>
	<ul style="list-style-type: none"> <li>Immediately after the "Key Audit Matter" section.</li> <li>If other matter is related with other legal and regulatory requirements, it needs to be placed in "Reporting on other legal and Regulatory requirements" Section.</li> </ul>

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# 11.6 - Comparative Information - Corresponding Figures and Comparative Financial Statements (SA 710)

## Meaning & Types of Comparative Information

1	<b>Comparative Information</b>
The amounts and disclosures included in the F.S. in respect of one or more prior periods in accordance with applicable FRF.	
2	<b>Corresponding Figures</b>
Comparative information where amounts and other disclosures for the prior period, are included as an <b><u>integral part of current period F.S.</u></b> and are intended to be read only in relation to the amounts and other disclosures relating to the current period.	
3	<b>Comparative F.S.</b>
Comparative information where amounts and other disclosures for the prior period, are included for <b><u>comparison with the F.S. of the current period</u></b> but, if audited, are referred to in the auditor's opinion.	

## Audit Procedures

1	<b>Determine</b>
(a) Whether F.S. include Comparative information required by FRF, & (b) Whether such information is classified appropriately.	
2	<b>Evaluate</b>
(a) Whether the comparative information agrees with the amounts and other disclosures presented in the prior period; and (b) Whether the accounting policies reflected in the comparative information are consistent with those applied in the current period. (c) Whether, changes in accounting policies, if any, have been properly accounted for and adequately presented and disclosed.	
3	<b>Doubt over existence of misstatement</b>
Perform additional audit procedures to obtain sufficient appropriate audit evidence to determine existence of material misstatement. <b>Note: SA 560 "Subsequent Event" also applies if auditor had audited the prior period F.S.</b>	
4	<b>Obtain WR</b>
From management to re-affirm that the WR it previously made with respect to the prior period remain appropriate.	

**Compiled by: CA. Pankaj Garg**

## Audit Reporting

### Comparative F.S.

1. Audit opinion to refer to each period for which F.S. are presented and on which opinion is expressed.
2. If opinion on prior period FS expressed in current period differs from opinion expressed in the relevant prior period, give substantive reason for difference in Other Matter Para.

### Corresponding Figures

Audit opinion not to refer to corresponding figures, EXCEPT:

- **Auditor's report in prior period FS was modified and the subject matter is still unresolved:** Modify current audit report also.
- **Auditor obtains audit evidence w.r.t. existence of material misstatement in prior period F.S. on which unmodified opinion was issued:** Express qualified/ adverse opinion on current F.S. w.r.t. Corresponding figures if misstatement has not been dealt as required by applicable FRF.

### 1 Prior Period F.S. Audited by Another Auditor

Audit report to also contain Other Matter para, stating that:

- FS of prior period were audited by predecessor auditor.
- Type of opinion expressed by him (reasons for modifications, if any).
- Date of that report.

### 2 Prior Period F.S. are Unaudited

Include Other Matters para:

- That corresponding FS are unaudited.
- But, this does not relieve the auditor from need to obtain SAAE that opening balances do not contain misstatements that can potentially affect current FS