

Lecture 6

"Audit Reports"

(1)	<u>Basics of Audit Reports:</u>	
	Reports through which auditor expresses his opinion on the financial statements are known as audit reports.	
(a)	For General Purpose Financial Statements:	SA 700, 701, 705 and 706 will apply
(b)	For Special Purpose Financial Statements:	SA 800 will apply along with SA 700, 705, 706
(c)	For Single Financial Statement or Element of Financial Statement:	SA 805 will apply along with SA 700, 705, 706.
(d)	For Summary Financial Statements:	SA 810 will apply.
(e)	For Assurance engagements on which Standards are not applicable:	"Guidance Note on Reports and Certificates for Special Purposes" will apply.
	<u>Types of Audit Reports:</u>	2 types
	(A) Unmodified Reports	(B) Modified Reports
	Reports issued when auditor concludes that F.S. are prepared in all material respects in accordance with applicable FRF.	
	(a) Unmodified opinion	(b) Modified opinion
	with EOM Para with OM Para	Qualified Adverse Disclaimer

(2)	<u>Forming an Opinion on the F.S.:</u>
	- SA 700 requires that auditor shall 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:
	(a) The auditor's conclusion, in accordance with SA 330, whether sufficient appropriate audit evidence has been obtained;
	(b) The auditor's conclusion, in accordance with SA 450, whether uncorrected misstatements are material, individually or in aggregate; and
	(c) To evaluate, 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 the F.S. is relevant, reliable, comparable and 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.
(3)	<u>Elements of an Unmodified Report:</u> [SA - 700 "Forming an opinion and Reporting on FS"]
	(i) <u>Title:</u>
	Audit Report may be titled as "Independent Auditor's Report", so as to distinguish this report from the reports issued by others.
	(ii) <u>Addressee:</u>
	Auditor's report shall be addressed as appropriate. As per SA 700, auditor report is to be addressed to the persons for whom it is prepared i.e. members of the company

	<p>(iii) <u>Opinion Section:</u></p> <p>This section covers the following:</p> <p>(a) Identify the entity;</p> <p>(b) Identify the title of each financial statement;</p> <p>(c) Specify the period/date to which financial statements belongs to;</p> <p>(d) State that financial statements have been audited; and</p> <p>(e) Opinion on the financial statements.</p> <p><u>Wordings of the opinion:</u></p> <p>Unmodified opinion on the F.S. shall be expressed as</p> <div style="display: flex; justify-content: space-around; align-items: flex-start;"> <div style="text-align: center;"> <p>(a) In case of <u>Fair Presentation Framework</u></p> <p>↓</p> <p>In our opinion, the financial statements present <u>fairly</u> in all material respect in accordance with [<u>applicable FRF</u>]</p> <p>Or</p> <p>In our opinion, the financial statements gives a true and fair view of [<u>F.S.</u>] in accordance with [<u>applicable FRF</u>].</p> </div> <div style="text-align: center;"> <p>(b) In case of <u>Compliance Framework</u></p> <p>↓</p> <p>In our opinion, the F.S. present in all material respects in accordance with [<u>applicable FRF</u>]</p> </div> </div>
	<p>(iv) <u>Basis for opinion:</u></p> <p>It will provide the following:</p> <ul style="list-style-type: none"> - Statement that audit was being conducted in accordance with Standards on Auditing. - It also refers to that section of audit report that describes the auditor's responsibilities. - It also states that auditor comply with ethical requirements including independence. - It also covers auditor's believing that they had sufficient and appropriate audit evidence to provide a basis for opinion.
	<p>(v) <u>Going Concern:</u></p> <p>This section will be given in the audit report when required as per SA 570 in case of "<u>Material uncertainty Relating of Going Concern</u>".</p>

	<p>(vi) <u>Key Audit Mattes:</u></p>
	<p>In case of listed entities, auditor shall communicate KAM in auditor's report as per</p>
	<p>the requirements of SA 701.</p>
	<p>(vii) <u>Other Information:</u></p>
	<p>Where applicable, auditor shall report in accordance with SA 720.</p>
	<p>(viii) <u>Management Responsibilities for the F.S.:</u></p>
	<ul style="list-style-type: none"> - To prepare the financial statements in accordance with applicable FRF.
	<ul style="list-style-type: none"> - To maintain adequate records for safeguarding of assets and prevention and detection of fraud.
	<ul style="list-style-type: none"> - To make reasonable judgements and estimates.
	<ul style="list-style-type: none"> - To design, implement and maintain necessary internal controls.
	<ul style="list-style-type: none"> - To assess the appropriateness of Going Concern basis of accounting.
	<ul style="list-style-type: none"> - To oversee the financial reporting process.
	<p>(ix) <u>Auditor's responsibilities for the audit of F.S.:</u></p>
	<ul style="list-style-type: none"> - This section states the overall objective of the auditor w.r.t. obtaining reasonable assurance that F.S. as a whole are free from material misstatements and issue the auditor's report that includes auditor's opinion.
	<ul style="list-style-type: none"> - Explanation w.r.t. reasonable assurance and application of concept of materiality.
	<ul style="list-style-type: none"> - Statement that auditor exercises Professional Judgement and maintain Professional Skepticism throughout the audit.
	<ul style="list-style-type: none"> - State the auditor's responsibilities relating to -
	<ul style="list-style-type: none"> (a) Identifying and assessing risk of material misstatement.
	<ul style="list-style-type: none"> (b) Design and performing procedures responsive to assessed risks.
	<ul style="list-style-type: none"> (c) Obtaining sufficient and appropriate audit evidences.
	<ul style="list-style-type: none"> (d) Understanding of Internal Control.
	<ul style="list-style-type: none"> (e) Expressing an opinion on adequacy and operating effectiveness of
	<p>Internal Financial Controls w.r.t. financial statements.</p>

	(f) Evaluation of appropriateness of accounting policies and reasonableness of accounting estimates.
	(f) Evaluation of appropriateness of use of Going Concern basis of accounting.
	(h) Evaluate the overall presentation, structure and content of financial statements
	- In addition, auditor's responsibilities Section shall also cover the following:
	(a) Responsibilities as to matters to be communicated to TCWG.
	(b) Providing a statement to TCWG on Compliance with Ethical requirements.
	(c) Determining KAM out of matters communicated to TCWG.
	Note: Description of auditor's responsibilities may be included
	(a) within the main body of auditor's report; or
	(b) as appendix to the main auditor's report; or
	(c) by a reference of a website of appropriate authority, if law and regulation expressly provide for it.
	(x) <u>Other Reporting Requirements:</u>
	Other reporting responsibilities will be reported under a separate section titled as "Reporting on other legal and Regulatory Requirements".
	Note: If auditor is required to report on matters other than the financial statements a separate heading should be given above the Opinion Section.
	(xi) <u>Signature:</u>
	Signature should be in personal name and firm's name along with membership number and firm Registration Number.
	(xii) <u>Place:</u>
	It should be the city where audit report is signed.
	(xiii) <u>Date:</u>
	Date should not be earlier than the date on which audit evidences are collected.

(4)	<u>Audit Reports for Audits conducted as per Standards on Auditing (SA) & International Standards on Auditing (ISA):</u>
	An auditor may be required to conduct an audit in accordance with the ISA, in addition to the SA issued by ICAI. If this is the case, the auditor's report may refer to SA in addition to the ISA, but the auditor shall do so only if:
	(a) There is no conflict between the requirements in the ISA and those in SAs that would lead the auditor:
	- to form a different opinion, or
	- not to include an EOM paragraph or OM Matter paragraph that, in the particular circumstances, is required by SAs; and
	(b) The auditor's report includes, at a minimum, each of the elements set out in Auditor's Report Prescribed by Law or Regulation when the auditor uses the layout or wording specified by the Standards on Auditing.
	Note: When the auditor's report refers to both the ISAs and the Standards on Auditing issued by ICAI, the auditor's report shall clearly identify the same including the jurisdiction of origin of the other auditing standards.
(5)	<u>Supplementary Information Presented with F.S.:</u>
	- If supplementary information that is not required by the applicable FRF is presented with the audited F.S., the auditor shall evaluate whether, in the auditor's professional judgment, supplementary information is nevertheless an integral part of the F.S. due to its nature or how it is presented.
	- When it is an integral part of the F.S., the supplementary information shall be covered by the auditor's opinion.
	- If supplementary information that is not required by the applicable FRF is not considered an integral part of the audited F.S., the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements.
	- If this is not the case, then the auditor shall ask management to change how the unaudited supplementary information is presented.
	- If management refuses to do so, the auditor shall identify the unaudited supplementary information and explain in the auditor's report that such supplementary information has not been audited.
DO Practice - Questions on SA 700	

(6)	<u>Modified opinions:</u>			
	[SA 705: Modifications to the opinion in the Independent Auditor's Report]			
(a)	<u>Types of Modified opinion: 3 types</u>			
	↓	↓	↓	
	Qualified Opinion	Adverse opinion	Disclaimer of Opinion	
	↓	↓	↓	
	It is issued when-	It is issued when	It is issued when	
	(a) F.S. are materially	auditor concludes	auditor not able to	
	misstated but these	that F.S. are materially	collect SAAE for	
	misstatements do not	misstated and such	transactions that	
	have pervasive effect	misstatements are	are material and	
	Or	having pervasive effect.	having pervasive	
	(b) Auditor is not able to		effect.	
	collect SAAE for transactions			
	that are material but do not			
	have pervasive effect.			
		Immaterial effect	Material effect but not pervasive	Material as well as Pervasive effect
	Misstatements identified in F.S.	Unmodified opinion	Qualified opinion	Adverse opinion
	Audit Evidences not collected due to Limitations	Unmodified opinion	Qualified opinion	Disclaimer of Opinion
(b)	<u>Circumstances when a Modification to the Auditor's Opinion is Required:</u>			
	--- Self Study from Main book ---			
(c)	<u>Limitation after the auditor has accepted the engagement:</u>			
	- If, after accepting the engagement, the auditor becomes aware that			
	management has imposed a limitation on the scope of the audit that the			
	auditor considers likely to result in the need to express a qualified opinion or			
	to disclaim an opinion on the financial statements, the auditor shall request			
	that management remove the limitation.			

	- If management refuses to remove the limitation, the auditor shall communicate the matter to TCWG and determine whether it is possible to perform alternative procedures to obtain SAAE.
	- If the auditor is unable to obtain SAAE, the auditor shall determine the implications as follows:
	(a) If the auditor concludes that the possible effects on the F.S. of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
	(b) If the auditor concludes that the possible effects on the F.S. of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:
	(i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or
	(ii) If withdrawal from the audit before issuing the auditor's report is not practicable, disclaim an opinion on F.S.
	Note: If the auditor withdraws, before withdrawing, the auditor shall communicate to TCWG any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.
	(b) <u>Considerations while issuing Modified opinions:</u>
	(i) <u>Opinion Section:</u> Change the heading → Qualified opinion
	Or
	Adverse opinion
	Or
	Disclaimer of opinion
	<u>Wordings of opinion Section:</u>
	(a) <u>Qualified Opinion:</u>
	Except for the effects of matters described in Basis for qualified opinion Section, the financial statements reflect true and fair view of [-----] as per requirements of [applicable FRF]

	(b) <u>Adverse opinion:</u>
	In auditor's opinion, because of significance of matters described in
	"Basis for Adverse opinion section", the F.S. have not been prepared
	in all material respects in accordance with [applicable FRF]
	(C) <u>Disclaimer of opinion:</u>
	Because of significance of matters described in "Basis for Disclaimer
	of opinion Section" the auditor has not been able to obtain sufficient
	and appropriate audit evidence to provide a basis for audit opinion on
	F.S. and accordingly no opinion is being expressed.
	(ii) <u>Basis for opinion Section:</u>
	Change the heading to: Basis for Qualified opinion
	Or
	Basis for Adverse opinion
	Or
	Basis for Disclaimer of opinion
	Include the description giving rise to modification.
	(i) If Modification is due to material misstatement in any amount, auditor
	should provide the:
	(a) Description of misstatement
	(b) Quantification of financial effect if determinable
	(c) If not determinable, state the fact.
	(ii) If modification is due to misstatement in any disclosure, auditor
	should provide the explanation how the disclosures are misstated in
	the opinion of Auditor.
	(iii) If modification is due to reason that required information is not
	disclosed in the financial statement, auditor should
	- Explain the nature of information omitted to be disclosed.
	and
	- Provide the disclosure, if any.

Financial Statements

General Purpose F.S.



Users - Common users



Audit report → SA 700, 701, 705, 706

Special Purpose F.S.



Specific users



Audit Report → SA 800 + SA 700-...

→ SA 805 (Specific Ekmed)

→ SA 810 (Summary F.S.)

✓ SA-700 "Forming an opinion and reporting on F.S."

↳ Unmodified opinion (unmodified reports)

✓ Fair presentation framework



F.S. → True and fair view

or

F.S. → fairly - Material - FRF.

(Mngt - discretion to take deviation from Acctg policies ↓ better presentation of F.S.)

Compliance framework



deviations not permitted

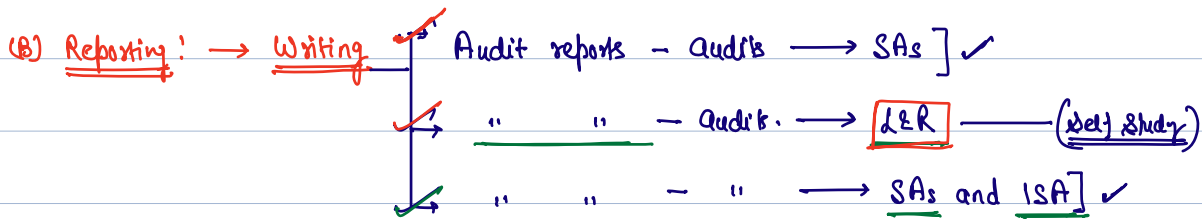
(A) Forming an opinion: → F.S. → free from material misstatements and are being prepared in all material respects → applicable FRF.

(i) SAAE.

(ii) Misstatements - uncorrected.

(iii) Evaluation.

→ Conclusion - Opinion.



(C) Elements: (i) Title (ii) Addressee (xi) Signature (xii) Place (xiii) Date.
SA-700

Report on financial statements

Report on other legal and regulatory requirements.

(iii) Opinion section (unmodified opinion)

(x) Report on other legal and regulatory requirements

(iv) Basis of opinion section

(v) Going concern (SA-570)

(a) Sec. 143(3)(i), (b) CARO, 2020

(vi) Key Audit Matters (SA-701)

(c) Sec. 143(3) (d) Rule 11 of CAAR

(vii) Other information (SA-720)

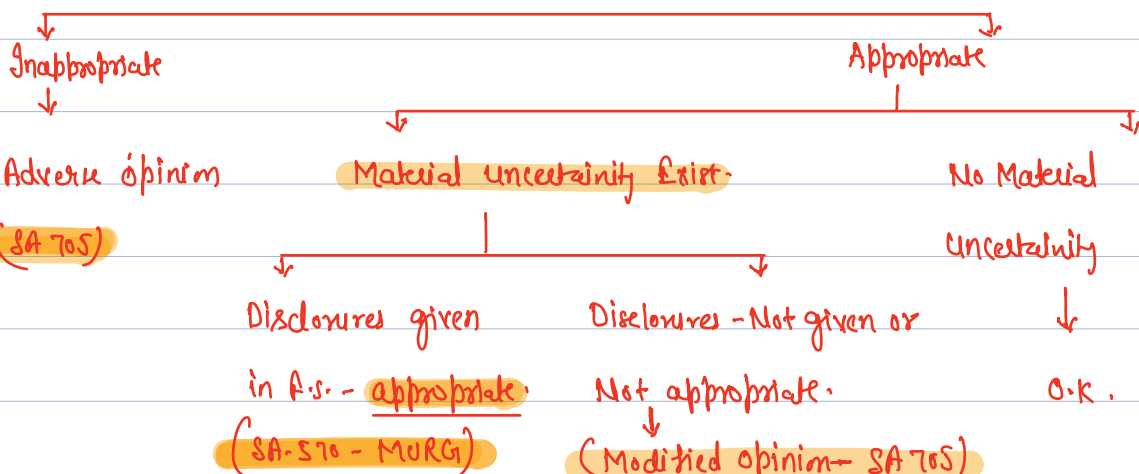
(xiii) Mngt. responsibility for the f.s.

(ix) Auditor's responsibility

Note! For modified opinions, requirements of SA 705 will apply.

SA-705
+ EOM
+ OM
Modified report.

Going concern



Supplementary info. presented with f.s.

(Ex: additional P&L Acc - disallows specific expenditure)



Auditor shall evaluate whether it is integral to f.s.



YES



Supplementary information shall be covered by Audit opinion

No.



Determine whether it is differentiated from the audited f.s.



YES



O.K.



No.



Ask Mngt. to change the presentation of unaudited supp. info.



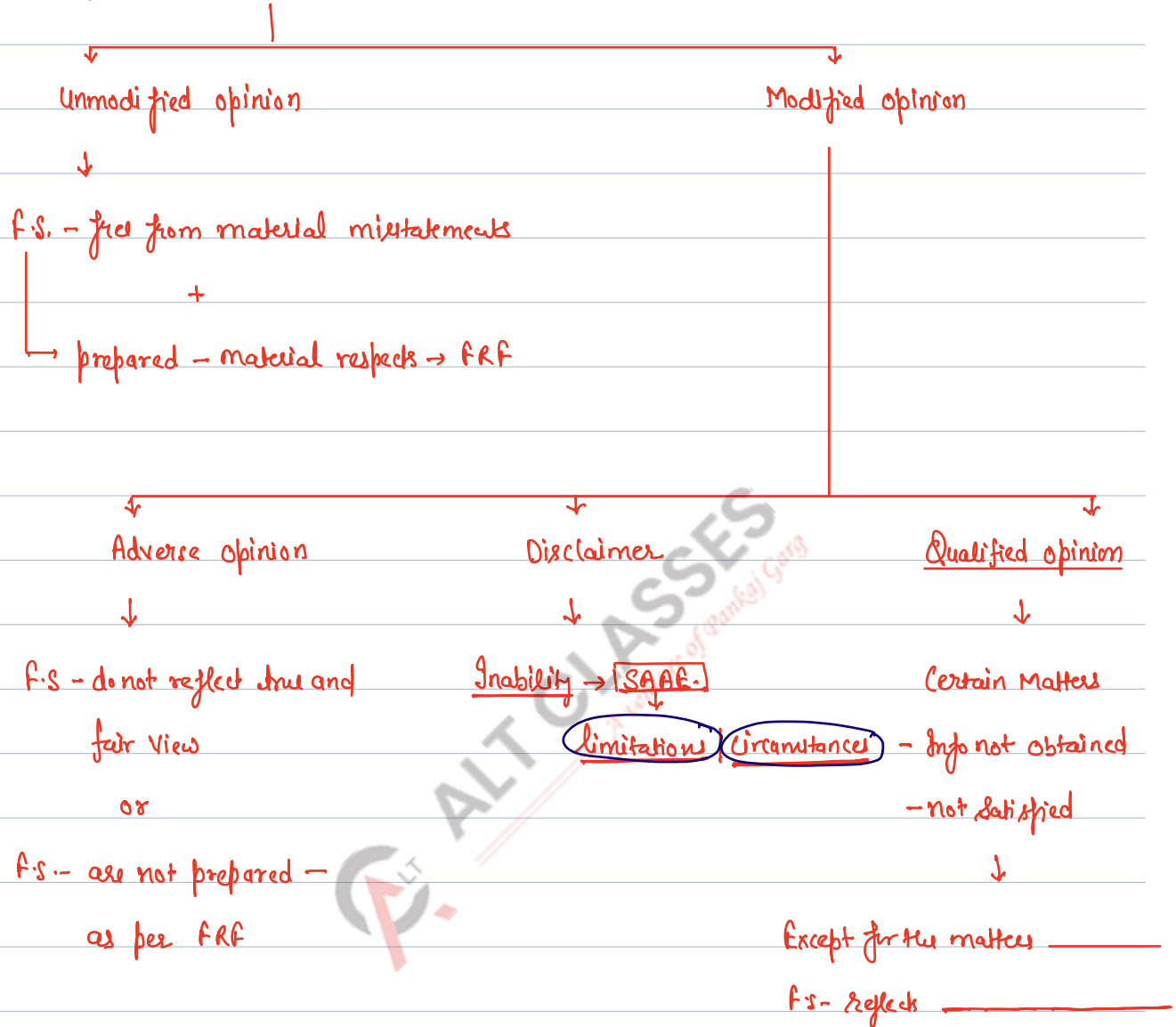
Mngt. refused to do so,



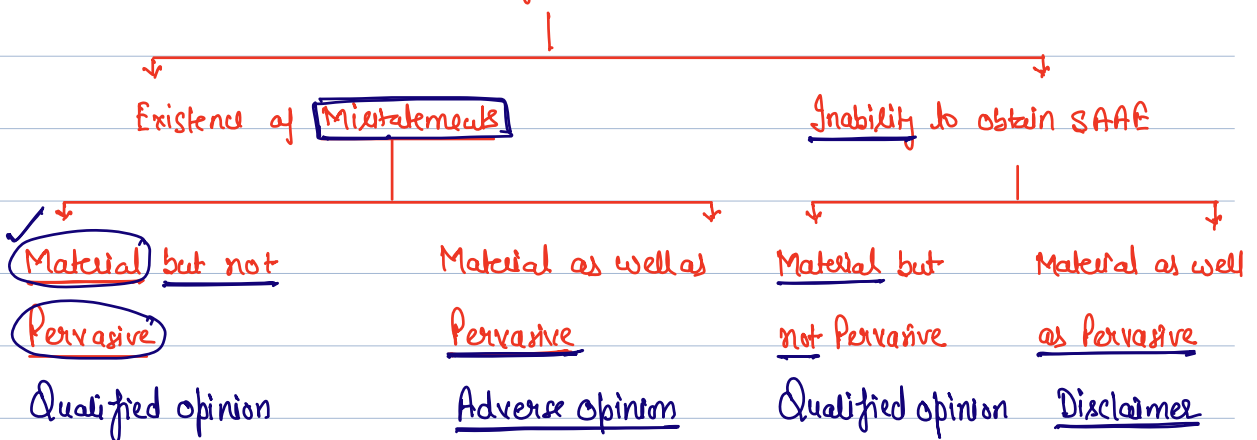
auditor shall identify unaudited supp. info. and

explain in auditor's report that such supp. info. is unaudited.

Modifications: Opinion



Modifications



Modification:

(i) Opinion Section

(ii) Basis for opinion section

(iii) Auditor's responsibility

	<u>Qualified</u>	<u>Adverse</u>	<u>Disclaimer</u>
<u>Opinion section</u>	Heading change Opinion para	Heading change Opinion para	Heading change Opinion para
<u>Basis for opinion section</u>	Heading change Mis- Amt. Disclor- Info - not disclosed. SAAE - Matters.	Heading change ✓	Heading change ✓
<u>Responsibility para</u>	—	—	✓