



Revised Reporting Standards – SA 700, SA 705 and SA 706

**Presented by:
Vikas Khurana**

Confidential and Privileged

STANDARDS ON AUDITING

Standard on Quality Control

(which apply to quality control at the firm level)

SQC 1 - Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements

Standards on Auditing

(which apply to audits of historical financial information)

- a) General Principle and Responsibilities (200-series)
- b) Risk Assessment and responses to assessed risk (300 and 400 – series)
- c) Audit evidence (500-series)
- d) Using the work of **others (600- series)**
- e) **Audit conclusions and reporting (700 series)**
- f) Specialized areas (800- series)

List of Standards on Auditing on Reporting:

SA 700-799 - Audit Conclusions and Reporting

700	Forming an Opinion and Reporting on Financial Statements
701	Communicating Key Audit Matters in the Independent Auditors Report.
705	Modifications to the Opinion in the Independent Auditor's Report
706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
710	Comparative Information—Corresponding Figures and Comparative Financial Statements
720	The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements

Agenda

STANDARD ON AUDITING (SA)		SCOPE
SA 700	Forming an Opinion and Reporting on Financial Statements	Deals with the auditor's responsibility to form an opinion on the financial statements.
SA 705	Modifications to the Opinion in the Independent Auditor's Report	Deals with how the form and content of the auditor's report are affected when the auditor expresses a modified opinion in the auditor's report.
SA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	Deals with how the form and content of the auditor's report are affected when the auditor includes an Emphasis of Matter paragraph in the auditor's report.

Standard on Auditing (SA) 700 (Revised)

Forming an Opinion and Reporting on Financial Statements

Effective for audits of financial statements for periods beginning on or after April 1, 2018

Scope of SA

- Deals with the auditor's responsibility to **form an opinion** on the financial statements and with the **form and content** of the auditor's report.
- This SA is written in context of a complete set of **general purpose financial statements**.

Objective of the Auditors are

- Form an opinion on the financial statements **based on an evaluation** of the **conclusions** drawn from the **audit evidence obtained**; and
- Express clearly the **opinion through a written report**;

Requirements of Forming an Opinion on the Financial Statements

(i) Applicable financial reporting framework

The Auditor shall -

Form an opinion on whether the **financial statements are prepared**, in **all material respects**, in accordance with the applicable **financial reporting framework**.

Conclude whether he has obtained **reasonable assurance** about whether the financial statements are free from material misstatement, whether due to fraud or error.

(ii) Conclusion shall take into account:

- SA 300: sufficient appropriate audit evidence, and;
- SA 450: uncorrected misstatements are material, individually or in aggregate.

Requirements of Forming an Opinion on the Financial Statements (contd.)

(iii) Auditor shall evaluate the following requirements:

- Financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This shall include, inter-alia, consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.

The Auditor shall conclude

- Adequacy of disclosure of significant accounting policies selected and applied
- Accounting policies selected and applied are consistent with applicable Financial Reporting Framework and are appropriate
- Reasonability of accounting estimates made by the management
- The information presented in the financial statements is relevant, reliable, comparable, and understandable;
- Adequate disclosure to enable the users to understand the effect of material transactions
- Terminology used in financial statement is appropriate.

Form an Opinion

Type of Opinion	Condition
(i) An unmodified opinion	Concludes that the financial statements are prepared, in all material respects , in accordance the applicable financial reporting framework.
(i) An modified opinion (in accordance with SA 705 (Revised))	If the auditor concludes: <ul style="list-style-type: none">(a) that based on audit evidence obtain, the financial statements are not free of material misstatements;(b) that he is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements are free of material misstatements.

Key Amendments:

Auditor's Report Format:

SA 700 (Revised) (w.e.f. 1-4-2018)	SA 700 (Old)
<ul style="list-style-type: none">(a) Title - "Independent Auditors' Report"(b) Addressee – "Shall be addressed as required by the circumstances of the engagement."(c) Auditor's Opinion(d) Basis for Opinion(e) Going Concern - Where applicable, the auditor shall report in accordance with SA 570(f) Key Audit Matters(g) Management's Responsibility(h) Auditor's Responsibility(i) Other Reporting Responsibilities(j) Date, Place of Signature	<ul style="list-style-type: none">(a) Title - "Independent Auditors' Report"(b) Addressee – "Shall be addressed as required by the circumstances of the engagement."(c) Introductory Paragraph(d) Management's Responsibility(e) Auditor's Responsibility(f) Auditor's Opinion-(g) Other Reporting Responsibilities(h) Date, Place of Signature

Auditor's Report

- A) **Title:** Should have a clear title – “Independent Auditors’ Report”
- B) **Addressee:** Shall be addressed as required by the circumstances of the engagement.
- C) **Auditors’ Opinion – (heading “Opinion.”) shall:**
 - Identify the entity whose financial statements have been audited;
 - State that the financial statements have been audited;
 - Identify the title of each statement comprising the financial statements;
 - Refer to the notes, including the summary of significant accounting policies; and
 - Specify the date of, or period covered by, each financial statement comprising the financial statements.

The introduction paragraph, as prescribed in the old SA 700, is not required to be presented separately now. This has been included in the Auditors’ opinion paragraph.

Auditor's Report (contd.)

C) Auditors' Opinion :

- An unmodified opinion on financial statements prepared in accordance with fair presentation framework shall include
 - (a) The financial statements present fairly, in all material respects, in accordance with the applicable financial reporting framework; or
 - (b) The financial statements give a true and fair view of in accordance with the applicable financial reporting framework.

- An unmodified opinion on financial statements prepared in accordance with compliance framework shall include
 - (a) The financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework

Auditor's Report (contd.)

- If the applicable financial reporting framework is not the accounting standards issued by 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 issued by the Institute of Chartered Accountants of India, then the auditor shall identify the jurisdiction of origin of the framework.

D) Basis for Opinion

- The Auditor's report shall include a section, directly following the opinion section, with the heading "Basis for opinion", that:
 - (a) states the audit was conducted in accordance with the SAs.
 - (b) refers to the section of the auditor's report that describes the auditor's responsibilities under the SAs
 - (c) includes a statement that auditor is independent of entity and has fulfilled the auditor's other ethical responsibilities in accordance with code of ethics issued by ICAI.
 - (d) states whether the auditor believes that the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Auditor's Report (contd.)

E) Going Concern:

Where applicable, the auditor shall report in accordance with SA 570.

F) Key Audit Matters:

- Auditor shall communicate key audit matters in the auditor's report of general purpose financial statements of listed entities in accordance with SA 701.
- Auditor shall communicate key audit matters in the auditor's report accordance with SA 701 when the auditor is otherwise required by law or regulation or decides to communicate key audit matters.

Auditor's Report (contd.)

G) Management Responsibility Statement :

- Auditor shall state that responsibilities of those in the organization for preparation of the financial statements.
- Management's responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatements , whether due to fraud or error.
- Management's responsibility includes that financial statements are prepared in accordance with the applicable financial reporting framework.
- Management's responsibility includes the assessment of the entity's ability to continue as going concern and whether the use of going concern basis of accounting is appropriate.

Auditor's Report (contd.)

H) Auditors' Responsibility:

- Shall state that the objectives of the auditor are to :
 - (a) obtain reasonable assurance about whether the financial statement as a whole are free from material misstatement, whether due to fraud or error.
 - (b) Issue an auditor's report that includes the auditor's opinion.

- State that reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists

- State that misstatements can arise from fraud or error, and describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users.

Auditor's Report (contd.)

H) Auditors' Responsibility: (contd.) :

- Shall state that the auditor exercises professional judgment and maintains professional skepticism throughout the audit;
- The auditor shall describe that the auditor's responsibilities are :
 - To identify and assess the risk of material misstatement
 - To design and perform audit procedures responsive to those risks
 - To obtain audit evidence that is sufficient and appropriate to provide basis for the auditor's opinion.
 - To obtain an understanding of internal control relevant to the audit
- To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Auditor's Report (contd.)

H) Auditors' Responsibility: (contd.) :

- To conclude on the appropriateness of management's use of the going concern basis of accounting
- To evaluate the overall presentation, structure and content of the financial statements, including the disclosures.
- State that the auditor communicates with those charged with governance regarding the planned scope and timing of the audit and significant audit findings, including any significant deficiencies identified in internal control.
- State that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements
- For all such entities for which key audit matters are communicated in accordance with SA 701, state that, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit.

Auditor's Report (contd.)

H) Auditors' Responsibility: (contd.) :

- The description of the auditor's responsibilities shall be located:
 - within the body of the auditor's report.
 - Within an appendix to the auditor's report
 - By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority
- Shall state that the audit evidence obtained is sufficient and appropriate to provide Basis for his opinion.
- Financial statements are prepared in accordance with a applicable financial reporting presentation framework that give a true and fair view.

Auditor's Report (contd.)

I) Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2016 ("the Order") issued by the Central Government in terms of Section 143(11) of the Act, we give in the Annexure a statement on the matters specified in paragraphs 3 and 4 of the Order.
2. As required by Section 143 (3) of the Act, we report that:
 - (a) We have **sought** and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

Explanation for 'sought' word

Companies Act, 2013 has inserted the word **sought**. Hence, we need to perform additional procedures to demonstrate that we have 'sought' all the information for our audit purposes. The onus on auditors has increased significantly, since there needs to be a demonstration that the information and explanations were indeed sought from the Company. Requests for information and explanations would need to be in written form (memos, minutes, etc.) to demonstrate compliance with the requirements of Section 143(3)(a).

Auditor's Report (contd.)

I) Report on Other Legal and Regulatory Requirements (Contd.)

- (b) In our opinion, **proper books of account as required by law have been kept** by the Company so far as it appears from our examination of those books *[and proper returns adequate for the purposes of our audit have been received from the branches not visited by us.]*
- (c) *[The **reports** on the accounts of the **branch offices** of the Company audited under Section 143 (8) of the Act by branch auditors have been sent to us and have been properly dealt with by us in preparing this report.]*
- (d) The Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement dealt with by this Report are in **agreement with the books of account** *[and with the returns received from the branches not visited by us].*
- (e) In our opinion, the aforesaid standalone financial statements **comply with the Accounting Standards prescribed under Section 133 of the Act.**
- (f) The **observations or comments** of the auditors on financial transactions or matters which have any **adverse effect on the functioning of the company.** (Not Applicable for clean opinion).

Auditor's Report (contd.)

I) Report on Other Legal and Regulatory Requirements (Contd.)

- (g) On the basis of the written representations received from the directors as on 31st March, 20XX taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 20XX from being appointed as a director in terms of Section 164 (2) of the Act.
- (h) Any **qualification, reservation or adverse remark** relating to the maintenance of accounts and other matters connected therewith.
- (i) With respect to the **adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls**, refer to our separate Report in "Annexure A".
 - **Our report expresses an unmodified opinion** on the adequacy and operating effectiveness of the Company's internal financial controls over financial reporting
[or]
 - **qualified / adverse opinion** on the operating effectiveness of the Company's internal financial controls over financial reporting
[or]
 - **qualified / adverse opinion** on the adequacy and operating effectiveness of the Company's internal financial controls over financial reporting
[or]
 - **disclaimer of opinion** on the Company's internal financial controls over financial reporting.

Auditor's Report (contd.)

I) Report on Other Legal and Regulatory Requirements (Contd.)

(j) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:

- The Company has disclosed the **impact of pending litigations** on its financial position in its financial statements – Refer Note XX to the financial statements; [or the Company does not have any pending litigations which would impact its financial position]
- The Company has made provision, as required under the applicable law or accounting standards, for **material foreseeable losses**, if any, on long-term contracts including derivative contracts – Refer Note XX to the financial statements; [or the Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.]
- There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company {or, following are the instances of delay in transferring amounts, required to be transferred, to the **Investor Education and Protection Fund** by the Company or there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company}.

Frequently Asked Questions

1. Is it necessary that an auditor's report should follow a particular form and style?



Frequently Asked Questions

2. Where would the information which was presented under the introductory paragraph of erstwhile SA 700 be presented in the prescribed format of the audit report under SA 700 (Revised)?



Frequently Asked Questions

3. What happens when those responsible for oversight of the financial reporting process are different from the management (i.e., those who fulfill the responsibilities for preparing financial statements and assessment of going concern, as per paragraph 33 of SA 700 (Revised))?



Frequently Asked Questions

4. Where an entity does not have any material uncertainty regarding the entity's ability to continue as a going concern, should the Auditor's Responsibility paragraph continue to include the disclosure as required by paragraph 38(b)(iv) of SA 700 (Revised)?



Frequently Asked Questions

5. What is new in the basis for opinion paragraph and whether this paragraph should be included in all audit reports, whether modified or not?



Frequently Asked Questions

6. Is there a requirement for all entities to have a separate paragraph on key audit matters in the auditor's report?



Frequently Asked Questions

7. How and where should materiality be described in the auditor's report?



Frequently Asked Questions

8. Consequent to the enhancement in the auditor's responsibility paragraph, is there a real increase in the auditor's responsibility insofar as the audit is concerned?



Frequently Asked Questions

9. Does the auditor still need to report on other legal and regulatory requirements?



Frequently Asked Questions

10. What is the significance of the date of the auditor's report?



Frequently Asked Questions

11. Can an auditor sign the auditor's report at a place other than the city where the registered office of the entity is situated? Do the directors and auditor need to sign the financial statements at the same location?



Standard on Auditing (SA) 705

Modifications to the Opinion in the Independent Auditor's Report

Effective for audits of financial statements for periods beginning on or after April 1, 2018

Introduction

- SA deals with the auditor's responsibility to issue an appropriate report in circumstances when, the auditor concludes that a modification is necessary.
- Types of modified opinions
 - Qualified Opinion
 - Adverse Opinion
 - Disclaimer of Opinion
- The decision on the type of opinion depends upon:
 - **Nature of the matter** giving rise to the modification i.e. whether the financial statements are materially misstated
 - **Inability to obtain** sufficient and appropriate audit evidence
 - **Auditors' judgment about the pervasiveness** of the effects or possible effects of the matter

Objective

- The auditor shall modify the opinion when:
 - He concludes that, based on audit evidence, the financial statements as a whole are **NOT** free of material misstatements; or
 - The auditor is **UNABLE** to obtain sufficient appropriate audit evidence to conclude that the financial statements are free of material misstatements

Auditors' Report Modification Matrix (SA 705)

Nature of matter giving rise to the modification	Auditors' Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements	
	Material but not pervasive	Material and Pervasive
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Nature of Material Misstatements

A misstatement is the difference between :

Amount, classification, presentation, or disclosure **reported** in the financial statements and the amount, classification, presentation, or disclosure **required** as per the applicable financial reporting framework. This may arise in relation to :

- A. Appropriateness of the selected accounting policies
- B. Application of the selected accounting policies
- C. Appropriateness or adequacy of disclosures in the financial statements

A. Appropriateness of the selected accounting policies

Material misstatements may arise when:

- (i) Selected accounting policies **are not consistent** with the applicable financial reporting framework;
- (ii) Financial statements, including notes thereon, **do not represent underlying transactions and events** that achieves fair presentation

Nature of Material Misstatements (contd.)

B. Application of selected accounting policies

Material misstatements may arise when:

- (i) When accounting **policies are not applied** consistently, including consistency between periods, similar transactions and events;
- (ii) Method of application is **erroneous**

C. Appropriateness or adequacy of disclosures in the financial statements

Material misstatements may arise when:

- (i) Financial statements **do not include all disclosures** required by the applicable financial reporting framework
- (ii) Disclosures are not presented **in accordance with** the applicable financial reporting framework
- (iii) The financial statements do not provide the **disclosures necessary** to achieve fair presentation.

Inability to Obtain Sufficient Appropriate Audit Evidence

- Auditors' inability to obtain sufficient appropriate audit evidence may arise from:
 - (i) Circumstances **beyond the control of the entity**;
 - (ii) Circumstances relating to **nature or timing of the auditors' work** ; or
 - (iii) **Limitation imposed** by the management

- Communicate it to those charged with governance and determine if alternative audit procedures are possible.

- If the auditor is unable to obtain sufficient appropriate audit evidence, shall:
 - (i) Resign from the engagement, where practicable and not prohibited by law

 - (ii) If resignation is not possible, shall give a disclaimer of opinion

- Where the auditor decides to resign, he shall inform to those charged with the governance any matters regarding misstatements that would have given rise to modification in the report

Form and Content of the Auditor's Report When the Opinion is Modified

In addition to the elements of the auditors' report referred in SA 700, the following need to be added for modified reports:

- A. Amendments in the opinion paragraph
- B. Amendment in Basis for opinion paragraph
- C. Amendments in the Auditors' responsibility paragraph

Form and Content of the Auditor's Report When the Opinion is Modified (contd.)

A. Amendments in the opinion paragraph

- Use the heading – “Qualified Opinion”, “Adverse Opinion”, or “Disclaimer of Opinion”
- Must use the phrases - “with the foregoing explanation” or “subject to” or “except that”
- Where a qualified opinion is issued due to material misstatement the auditor shall state in the opinion paragraph that **except for the matters described** in the basis of qualified opinion, the financial statements have been prepared, in all material respects, in accordance with the **applicable financial reporting framework**

Form and Content of the Auditor's Report When the Opinion is Modified (contd.)

- When modification arises from inability to obtain sufficient appropriate audit evidence, the auditor shall use the corresponding phrase “except for the **possible** effects of the matter(s)...” for the modified opinion

- When issuing **an adverse opinion**, the auditor shall state:
 - (i) That the financial statements **DO NOT PRESENT** a true and fair view; **or**
 - (ii) The financial statements have **NOT** been prepared, in all material respects, in accordance with the applicable financial reporting framework

- When the **auditor disclaims an opinion** due to inability to obtain sufficient appropriate audit evidence, he shall state:
 - (i) Because of the significance of the matter(s) described in the Basis for Disclaimer of opinion paragraph, the auditor has **NOT** been able to obtain sufficient appropriate audit evidence, **and** does **NOT** express an opinion on the financial statements

Form and Content of the Auditor's Report When the Opinion is Modified (contd.)

B. Amendments in Basis for Opinion paragraph

- Amend the heading “Basis for opinion” required by SA 700 to “Basis for Qualified Opinion”, “Basis for Adverse Opinion”, or “Basis for Disclaimer of Opinion”, as appropriate.
- This is placed immediately **after** the opinion paragraph and under the heading “Basis for Qualified Opinion, Basis for Adverse Opinion, Basis for Disclaimer of Opinion”
- Modification may relate to:
 - (i) Specific amounts—include the description and quantification of the financial effects, if practicable, state the fact in the report.
 - (ii) Narrative disclosures in the financial statements.

Form and Content of the Auditor's Report When the Opinion is Modified (contd.)

- Non-disclosure of information required to be disclosed – in this case
 - (i) Discuss the non-disclosure with those charged with governance
 - (ii) Describe the nature of omitted information
 - (iii) If practicable, include the omitted disclosure
- If modification **results from inability** to obtain sufficient appropriate audit evidence, include reason.
- Even if the auditor has expressed an adverse opinion or disclaimer of opinion, shall describe other matters, that would have required a modification

Form and Content of the Auditor's Report When the Opinion is Modified (contd.)

- When the auditor expresses a qualified or adverse opinion, amend the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion required by SA 700 (Revised) to include the word "qualified" or "adverse", as appropriate.
- When the auditor disclaims an opinion on the financial statements, then he shall not include the following elements required by SA 700:
 - (i) A reference to the section of the auditor's report where the auditor's responsibilities are described
 - (ii) A statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion

Form and Content of the Auditor's Report When the Opinion is Modified (contd.)

- When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, he shall amend the description of the auditor's responsibilities to include only the following:
 - (i) A statement that the auditor's responsibility is to conduct an audit in accordance with SAs and to issue an auditor's report
 - (ii) A statement that the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion
 - (ii) The statement about auditor independence and other ethical responsibilities
- When the auditor disclaims an opinion, the auditor's report shall not include a Key Audit Matters section.

Form and Content of the Auditor's Report When the Opinion is Modified (contd.)

C. Amendments in the Auditors' responsibility paragraph

- In case of qualified opinion or adverse opinion, the auditor shall state that the audit **evidence is sufficient and appropriate** to provide a basis for his **MODIFIED audit opinion**

- In case of **disclaimer of opinion** due to inability to obtain sufficient appropriate audit evidence:
 - (i) the auditor shall amend the introductory paragraph to state that **was engaged** to audit the financial statements;

 - (ii) He shall amend the auditors' responsibility paragraph and scope to include the following **"because of the matter(s) described in the Basis for Disclaimer of Opinion paragraph, we have not been able obtain sufficient appropriate audit evidence to provide a basis for our audit opinion."**

Qualified opinion, Adverse opinion and Disclaimer opinion on Standalone Financial Statements

Update on Section 143(3)(f) and (h) of the Companies Act, 2013

Subsection (3) of section 143 of the Act lays down certain matters required to be reported upon by the auditor in his report.

The relevant extracts of section 143(3)(f) and (h) of the Act are reproduced below:

(f) “the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;”

Only such matters which, in the opinion of the auditor, have an adverse effect on the functioning of the company should be reported under this clause. Conversely, such qualifications or adverse opinions or disclaimer of opinion or emphasis of matters of the auditor, which do not deal with matters that have adverse effect on the functioning of the company, need not be reported under this clause.

Qualified opinion, Adverse opinion and Disclaimer opinion on Standalone Financial Statements (Cont.)

Update on Section 143(3)(f) and (h) of the Companies Act, 2013 (Cont.)

Examples of emphasis of matter which **may have** an adverse effect:

- Material uncertainty - going concern; or
- Material uncertainty - regarding the outcome of a litigation.

Examples which **may not have** an adverse effect:

- on managerial remuneration which is subject to the approval of the Central Government;
- on frauds that have been dealt with in the financial statements of the company and would not have any continuing effect on the financial statements.

Qualified opinion, Adverse opinion and Disclaimer opinion on Standalone Financial Statements (Cont.)

Update on Section 143(3)(f) and (h) of the Companies Act, 2013 (Cont.)

(h) “any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;”

Since clause (h) of section 143(3) requires the auditor to report under this clause only if the auditor has "any qualification, reservation or adverse remark", it is appropriate to conclude that a matter reported under emphasis of matter paragraph in the audit report need not be considered for reporting under this clause as an emphasis of matter is not in the nature of a qualification, reservation (disclaimer) or adverse remark.

Frequently Asked Questions

1. What is the difference between a “qualified” auditor’s report and a “modified” auditor’s report?



Frequently Asked Questions

2. How does the auditor decide the nature of modification that should be made?



Frequently Asked Questions

3. When is the effect of a misstatement or a possible misstatement considered to be “pervasive”?



Frequently Asked Questions

4. There is a misstatement or a series of misstatements in the financial statements that the auditor evaluates as material and pervasive to the financial statements, individually or in the aggregate. The auditor explains each such misstatement by giving separate paragraphs in his audit report and then states in his opinion that 'except for the effects/ possible effects of the matters stated in the said paragraphs, the financial statements give a true and fair view'... Is this permissible?



Frequently Asked Questions

5. There is a possible misstatement or a series of possible misstatements in the financial statements or a mix of misstatements and possible misstatements that the auditor evaluates as material and pervasive to the financial statements, individually or in the aggregate. The auditor explains each such misstatement by giving separate paragraphs in his audit report. In case of misstatements he quantifies the impact thereof. In case of possible misstatements he states the matter and expresses his inability to quantify the impact thereof in the absence of availability of evidence. He then states in his opinion that except for the possible effects of the matters stated in the said paragraphs, the financial statements give a true and fair view... Is this permissible?



Frequently Asked Questions

6. Is there a difference in the way an audit opinion is modified now?



Frequently Asked Questions

7. When a modified opinion is given, does the Auditor's Responsibility paragraph also correspondingly change?



Frequently Asked Questions

8. When the auditor's report is modified, does this impact the auditor's opinion on internal financial controls over financial reporting?



Frequently Asked Questions

9. When the auditor's report on internal financial controls over financial reporting is modified, does this impact the auditor's opinion on the financial statements?



Frequently Asked Questions

10. The amended paragraph 17 of the Guidance Note on Audit of Consolidated Financial Statements (Revised 2016) issued by the ICAI states that “While considering the observations (for instance modification and /or emphasis of matter/other matter in accordance with SA 705/706) of the component auditor in his report on the standalone financial statements, the parent auditor should comply with the requirements of SA 600, “Using the Work of Another Auditor”.” Whether principal auditor has to mandatorily reproduce all the observations of component auditors and ensure same is in compliance with the requirements of SA 705 (Revised)?



Standard on Auditing (SA) 706

Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

Effective for audits of financial statements for periods beginning on or after April 1, 2018

Introduction and Scope

Emphasis of Matter Paragraph	In report that refers to a matter appropriately presented or disclosed that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements
Other Matter Paragraph	In the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Requirement of EoM Paragraph in the Auditor's Report

A. The auditor shall include EoM paragraph provided:

- (i) The auditor would not be required to modify the opinion as a result of the matter
- (ii) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report

B. When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:

- (i) Include the paragraph within a separate section of the auditor's report;
- (ii) Use an appropriate heading that includes the term "Emphasis of Matter";
- (iii) **Clear reference to the matter** being emphasized and to where relevant disclosures that fully describe can be found in the financial statements; and
- (iv) Indicate that the **auditor's opinion is not modified**

Circumstances in Which an Other Matter Paragraph may be necessary

(i) Relevant to Users' Understanding of the Audit

In the rare circumstance where the auditor is **unable to resign from an engagement** even though the possible effect of an inability to obtain sufficient appropriate audit evidence due to a limitation on the scope of the audit imposed by management is pervasive,

Law, regulation or generally accepted practice may require or permit the auditor to elaborate on matters that provide further explanation of the auditor's responsibilities.

When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.

(ii) Reporting on more than one set of financial statements

An entity may prepare one set of financial statements in accordance with a general purpose framework (e.g., the national framework) and another set of financial statements in accordance with another general purpose framework (e.g., International Financial Reporting Standards), and engage the auditor to report on both sets of financial statements.

Circumstances in Which an Other Matter Paragraph may be necessary (contd.)

(iii) **Restriction on distribution or use of the auditor's report**

Financial statements prepared for a specific purpose may be prepared in accordance with a general purpose framework because the intended users have determined that such general purpose financial statements meet their financial information needs. Since the auditor's report is intended for specific users, the auditor may consider it necessary in the circumstances to include an Other Matter paragraph, stating that the auditor's report is intended solely for the intended users, and should not be distributed to or used by other parties.

Communication with Those Charged with Governance

If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, the auditor shall communicate with those charged with governance regarding this expectation and the proposed wording of this paragraph.

Frequently Asked Questions

1. Does insertion of an emphasis of matter paragraph in the auditor's report make the opinion "modified"?



Frequently Asked Questions

2. What kind of circumstances may require issuing an emphasis of matter paragraph?



Frequently Asked Questions

3. What kind of circumstances may require issuing an Other Matter paragraph?



Format of Auditor's Report

Independent auditor's report
to the members of ABC Company Limited
Report on the standalone financial statements

Opinion

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at 31st March 20XX, and the statement of Profit and Loss, (statement of changes in equity) and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information [in **which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at (location of branches)**]

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 20XX, and profit/loss, (changes in equity) and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section **143(10) of the Companies Act, 2013**. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements **under the provisions of the Companies Act, 2013 and the Rules thereunder**, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and **we do not provide a separate opinion on these matters**

Management's Responsibility for the Standalone Financial Statements

The Company's Board of Directors is responsible for the matters stated in **section 134(5) of the Companies Act, 2013 ("the Act")** with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance, (changes in equity) and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the accounting Standards specified under section 133 of the Act. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company **and for preventing and detecting frauds** and other irregularities; selection and application of appropriate implementation and maintenance of accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statement that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a **going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.** Those Board of Directors are also responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about **whether the financial statements as a whole** are free from material misstatement, **whether due to fraud or error**, and to issue an auditor's report that includes our opinion. **Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.**

As part of an audit in accordance with SAs, **we exercise professional judgment and maintain professional skepticism throughout the audit.** We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. **The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.**
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Companies Act, 2013, we are also responsible for expressing our opinion on whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management

- Conclude on the appropriateness of management's use of the **going concern basis of accounting** and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

We communicate with those charged with governance regarding, among other matters, **the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.**

We also provide those charged with governance with a statement that we have complied with relevant **ethical requirements regarding independence**, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the **key audit matters**. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter

We did not audit the financial statements/information of _____(number) branches included in the standalone financial statements of the Company whose financial statements / financial information reflect total assets of Rs._____ as at 31st March, 20XX and total revenues of Rs._____ for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of these branches, is based solely on the report of such branch auditors.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

(To be included, as necessary)

Format of Qualified opinion, Adverse opinion and Disclaimer opinion on Standalone Financial Statements

Qualified opinion

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the **Basis for Qualified Opinion** section of our report, the aforesaid financial statements give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31st, 2XXX and profit/loss, (changes in equity) and its cash flows for the year ended on that date.

Adverse Opinion

In our opinion and to the best of our information and according to the explanations given to us, because of the significance of the matter discussed in the **Basis for Adverse Opinion** section of our report, the accompanying consolidated financial statements do not give a true and fair view in conformity with the accounting principles generally accepted in India, of their consolidated state of affairs of the Group, its associates and jointly controlled entities, as at March 31, 20XX, of its consolidated profit/loss, (consolidated position of changes in equity) and the consolidated cash flows for the year then ended.

Disclaimer Opinion

We do not express an opinion on the accompanying consolidated financial statements of the Group. Because of the significance of the matter described in the **Basis for Disclaimer of Opinion** section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

THANK YOU