

**LIST OF INSTITUTE'S PUBLICATIONS (Newly applicable) RELEVANT FOR MAY, 2011
EXAMINATION (Announcement of BOS dated 28 Jan 2011)
CA Final
PAPER 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS**

S.No	SA	Name Of Standard	Effective Date
1	SQC 1	Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements	April 1, 2009
2	SA-200 (Revised)	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing	April 1, 2010
3	SA-620 (Revised)	Using the Work of an Auditor's Expert	April 1, 2010
4	SA- 700	Forming an Opinion and Reporting on Financial Statements	April 1, 2011
5	SA 705	Modifications to the Opinion in the Independent Auditor's	April 1, 2011
6	SA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	April 1, 2011
7	SA 710	Comparative Information – Corresponding Figures and Comparative Financial Statements	April 1, 2011
8	SA 800	Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Framework	April 1, 2011
9	SA 805	Special Considerations-Audits of Single Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement	April 1, 2011
10	SA 810	Engagements to Report on Summary Financial Statements	April 1, 2011
11	SRE 2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity	April 1, 2010

AUDITING AND ASSURANCE

Paper 2:- Group I PCC

Paper 6:- Group II IPCC

Standard On auditing (SAs)

S.No	SA	Name Of Standard	Effective Date
1	SA-200 (revised)	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing	April 1, 2010
2	SA-620 (revised)	Using the Work of an Auditor's Expert	April 1, 2010
3	SA- 700	Forming an Opinion and Reporting on Financial Statements	April 1, 2011
4	SA 705	Modifications to the Opinion in the Independent Auditor's	April 1, 2011
5	SA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	April 1, 2011
6	SA 710	Comparative Information – Corresponding Figures and Comparative Financial Statements	April 1, 2011
7	SRE 2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity	April 1, 2010

SQC - 1

QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF HISTORICAL FINANCIAL INFORMATION, AND OTHER ASSURANCE AND RELATED SERVICE ENGAGEMENTS

Purpose

To establish standards and provides guidance regarding the firm's system of quality control, which is to be designed to provide it with reasonable assurance that the firm complies with all professional and regulatory requirements, and the reports issued are appropriate in the circumstances.

Definitions

- **Engagement documentation** – *the record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers” or “work papers” are also sometimes used). The documentation for a specific engagement is assembled in an engagement file.*
- **Engagement Partner** – *the partner or other person in the firm who is a member of the Institute of Chartered Accountants of India and is in full time practice and is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.*
- **Engagement quality control review** – *a process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.*
- **Engagement quality control reviewer** – *a partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, with sufficient and appropriate experience and authority to objectively evaluate, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report. However, in case the review is done by a team of individuals, such team should be headed by a member of the Institute.*
- **Engagement team** – *all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.*
- **Firm** – *a sole practitioner/ proprietor, partnership, or any such entity of professional accountants, as may be permitted by law.*
- **Inspection** – *in relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.*
- **Listed entity** – *an entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are traded under the regulations of a recognized stock exchange or other equivalent body.*

- **Monitoring** – a process comprising an ongoing consideration and evaluation of the firm's system of quality control, engagements, designed to enable the firm to obtain reasonable assurance that its system of quality control is operating effectively.
- **Network firm** – an entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.
- **Partner** – any individual with authority to bind the firm with respect to the performance of a professional services engagement.
- **Personnel** – partners and staff.
- **Professional standards** – engagement standards, as defined in the ICAI's "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services," and relevant ethical requirements as contained in the Code.
- **Reasonable assurance** – in the context of this SQC, a high, but not absolute, level of assurance.
- **Staff** – professionals, other than partners, including any experts which the firm employs.
- **Suitably qualified external person** – an individual outside the firm with the capabilities and competence to act as an engagement partner, for example a partner or an employee (with appropriate experience) of another firm.

Para-3

The firm should establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances.

Key Elements of the system of quality control

- Leadership responsibilities
- Ethical requirements
- Acceptance and continuance of client relationship
- Human resources
- Engagement performance
- Monitoring

All the above-mentioned key elements should be addressed while formulating a quality control policy and should be communicated to the firm's personnel.

Leadership responsibilities

The firm's CEO or Managing Partner should assume ultimate responsibility for the firm's system of quality control. The importance of a quality oriented work culture is to be emphasized by all levels of firm's management in order to ensure compliance with professional and regulatory standards and to ensure effective reporting appropriate to circumstances. The firm's quality consideration should not be overridden by commercial consideration and business strategies. The person who is assigned the responsibility for the firm's quality control system by the CEO or Managing partners should possess sufficient and appropriate experience and the necessary authority to assume that responsibility.

Ethical requirements

Ethical considerations established in the Code of Conduct includes:

- Integrity
- Objectivity
- Professional competence
- Confidentiality
- Professional behavior

- *Independence*

Acceptance and continuance of client relationship

On acceptance of client relationship or on deciding on the continuance of existing relationship, the following factors are to be considered:

- *Clients integrity tested through various sources*
- *Competence to perform the engagement, like regulatory and industry knowledge in regard to the engagement.*
- *Availability of time and resources*
- *Compliance with ethical requirements*

If the firm obtains information at a later date that would have caused a decline of engagement at an earlier date the firm should discuss with the appropriate level of client's management and consider withdrawal from the engagement.

Human resources

An effective system of quality control in a firm should consider the following:

- *Recruitment process to select individual of integrity*
- *Firm's performance evaluation, compensation and promotion procedures to recognize personnel who are competent and committed to ethical principles.*
- *Development of capabilities, competence through professional education and continuous training*
- *Career development and estimation of personnel needs*

The firm should assign responsibility for each engagement to an engagement partner and ensure that

- *Identity and role of engagement partner are communicated*
- *The engagement partner has competence and authority*
- *The responsibilities are clearly defined and communicated to that partner*

Engagement performance

The firm should establish a system of quality control that provides reasonable assurance that the engagements are performed in accordance with professional standards and regulatory and legal requirements. The following factors are to be considered:

- *Understanding the requirements of the engagement and objective of work*
- *Process for compliance with applicable engagement standards*
- *Supervising the progress of the engagement*
- *Reviewing the responsibilities of team members and firm personnel*
- *Consultation with appropriate personnel within or outside the firm or experts*
- *Dealing with differences of opinion within the engagement team or between engagement partner and engagement quality control reviewer. The report shall not be issued without resolving the conflict.*

Monitoring

The system of quality control shall establish policies and procedures to monitor the effectiveness of engagement performance and ongoing evaluation of the quality control system. The ongoing evaluation shall consider:

- *Design, effective implementation and appropriate application of quality control system*
- *Analysis of new developments in professional standards and legal standards.*
- *Corrective actions and improvements to be made in the system and communication of weaknesses identified.*
- *Inspection of completed engagements that shall include at least one engagement for each partner over the inspection cycle of not more than 3 years.*

The deficiencies identified should be communicated to the engagement partner along with the remedial action that would require changes in quality control policy. The complaints and allegations against the firm as regards to the non-compliance of

professional standards or allegations of non-compliance of firm's system of quality control shall be dealt with either as per legal regulations or by taking appropriate remedial action.

Documentation

The firm should establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control. The firm may use electronic databases or use of simple checklists, manual notes and forms depending on :

- *The size of the firm and the number of offices.*
- *The degree of authority both personnel and offices have*
- *The nature and complexity of the firm's practice and organization.*

The firm shall retain the documentation as per the firm's policy or in compliance with the requirements of laws or regulations.

SA -200(Revised)

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

Q.1 What are Overall Objectives of an Independent Auditor?

According to SA 200 Revised The overall objectives of the auditor are:

- (a) *To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, resulting from either due to fraud or error, by this means enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and*
- (b) *To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings.*

For example:- *if the auditor is appointed under section 224 of the Companies Act, 1956 his objective will be to obtain reasonable assurance that whether Financial Statement of the company are giving true and fair view or not. Financial statement are said to be giving true and fair view only when they are complying with requirements of companies Act 1956 like schedule VI, Companies Accounting Standard Rules 2002, Schedule XIV, etc. Further Auditor has to report to members of the company in a manner specified in Section 227.*

Q.2 What will be consequences if auditor fails to achieve his objective?

According to SA 200 if auditor is unable to obtain sufficient appropriate audit evidences to support his conclusions or we can say he is unable to obtain reasonable assurance he should either give a disclaimer of opinion or should withdraw from engagement if permitted by law.

For example :- *If auditee has provided auditor Photocopies of books of accounts and evidences for audit as original books of accounts and evidences are ceased by Income tax department in such case auditor should either give a disclaimer of opinion that he is unable to form and express opinion on financial statement or he may decide to withdraw from engagement if permissible.*

Q.3 Briefly explain the requirements of SA-200 ?

There are 5 requirements an auditor has to fulfill according to SA-200

- **Ethical Requirements** relating to an audit of financial statements
- Requirement to have an attitude of **Professional Skepticism**
- Requirement to exercise **Professional Judgement**
- Requirement to obtain **Sufficient and Appropriate Audit Evidences**
- Requirement to follow all **Standards of Auditing**

Q.4 What do you mean by Ethical Requirements?

Every member of the ICAI is subject to ethical behaviour as described in CODE of ETHICS issued by ICAI. This Code of ethics requires that auditor shall subject to following ethical requirements while discharging his duties as an independent Auditor.

- (a) Integrity means Honest behaviour, Loyal attitude towards users of financial statements;
- (b) Objectivity :- This could be achieved only by having independence of mind and independence is appearance of an auditor.
- (c) Professional competence and due care; :- This could be achieved by acquainting himself with the latest developments in the field of accounting and auditing .
- (d) Confidentiality:- Should keep all information received from client and should not disclose the same unless it is not legal or professional requirement to do so.
- (e) Professional behaviour : There must be professional relation between auditor and auditee. There must not be any other interest to override the objectivity.

Further SQC-1 and SA220 have suggested ways and means to achieve such independence and objectivity of Auditor.

Q.5 What do you mean by attitude of Professional Skepticism ?

Professional Skepticism is nothing but an attitude of the auditor which requires auditor's alertness towards information provided to him from the auditee. It should not be understood as doubt but should be taken as vigilant attitude. For example auditor should always be alert towards

- ◆ Audit evidence provided by client that contradicts other audit evidence obtained by the auditor himself.
- ◆ Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence.
- ◆ Conditions that may indicate possible fraud.
- ◆ Circumstances that suggest the need for audit procedures in addition to those required by the SAs.

By adopting such an attitude auditor may minimise the risk of

- ◆ *Overlooking unusual circumstances.*
- ◆ *Over generalising when drawing conclusions from audit observations.*
- ◆ *Using inappropriate assumptions in determining the nature, timing, and extent of the audit procedures and evaluating the results thereof.*

Does it mean that auditor should place doubt over each record, information or document provided by the client to him? Answer to this question is addressed in SA 200 revised according to it "auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required to consider the reliability of information to be used as audit evidence

In cases of doubt about the reliability of information or indications of possible fraud (for example, if conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document may have been

falsified), the SAs require that the auditor investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter. Even if a belief that management and those charged with governance are honest and have integrity does not relieve the auditor of the need to maintain professional skepticism or allow the auditor to be satisfied with less-than-persuasive audit evidence when obtaining reasonable assurance.

For Example :- As Mr A is auditor of Y Ltd from last 3 years and every year after due examination he found financial statement true and fair and found management as honest and ethical does not mean that he should have a blind faith in audit of current year over all the information provided by them.

Q.6 What is requirement of professional Judgement as per SA – 200 (Revised)

Professional judgement means a judgment taken by the auditor out of his professional experience in a audit situation. According to SA 200 revised Professional judgment is essential to the proper conduct of an audit.

This is because interpretation of relevant

ethical requirements and the SAs and the informed decisions required throughout the audit cannot be made without the application of relevant knowledge and experience to the facts and circumstances. Professional judgment is necessary in particular regarding decisions about:

- ◆ *Materiality and audit risk.*
- ◆ *The nature, timing, and extent of audit procedures.*
- ◆ *Evaluating whether sufficient appropriate audit evidence has been obtained.*
- ◆ *The evaluation of management's judgments in applying the entity's applicable financial reporting framework.*
- ◆ *The drawing of conclusions based on the audit evidence obtained.*

It is required that auditors professional Judgement should be reasonable and rational. Consultation on difficult or contentious matters during the course of the audit, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, assist the auditor in making informed and reasonable judgments. Further the auditor is required to prepare audit documentation relating to such reasonable professional judgements.

Q.7 Explain the requirements of sufficient and appropriate Audit Evidences ?

According to SA 200 revised "Audit evidence is necessary to support the auditor's opinion and report." It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It

may, however, also include information obtained from other sources like experience from previous audit, information provided and prepared by employees, management and those charged with governance of the auditee. The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence and appropriateness means quality of Audit evidence (posers are given in previous chapter). Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of Professional judgment.

Q.8 Does the auditor expected to, reduce audit risk to zero and can obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error?

The answer is in negative. According to SA 200 Revised The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit. Inherent limitations means limitations which can not be overcome and which are with the subject since the inception or evolution of the subject. Following are contributors to inherent limitations to audit

1. Most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive.
 2. The nature of financial reporting :- If in financial statement some items are valued only on the basis of managements estimates which are highly subjective in those cases audit procedures are insufficient to find the reasonableness of such judgements.
 3. The nature of audit procedures:- For example Fraud may involve sophisticated and carefully organised schemes designed to conceal it. Therefore, audit procedures used to gather audit evidence may be ineffective for detecting an intentional misstatement that involves, for example, collusion to falsify documentation which may cause the auditor to believe that audit evidence is valid when it is not. The auditor is neither trained as nor expected to be an expert in the authentication of documents. Further auditor has no legal power to search forcefully, which may be necessary for such an investigation.
 4. The need for the audit to be conducted within a reasonable period of time and at a reasonable cost.
- Because of the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with SAs. Accordingly, the subsequent discovery of a material misstatement of the financial statements resulting from fraud or error does not by itself indicate a failure to conduct an audit in accordance with SAs.

Q.9 What are the requirements of SA 200 revised to Conduct of an Audit in Accordance with SAs?

Auditor is required to follow SAs during his audit. He is required to determine the nature timing and extent of his audit procedures according to requirements of SAs.

According to SA 200 Revised The requirements of the SAs are designed to enable the auditor to achieve the objectives specified in the SAs, and thereby the overall objectives of the auditor. SA 230 (Revised) establishes documentation

requirements in these exceptional circumstances where the auditor departs from a relevant requirement. If there is any conflict between the law with which the auditee is subject to and ISA, the law would prevail.

Q.10 What is Scope of an audit of Financial Statements?

Scope of audit means an area of work for the auditor. Scope of audit is primarily determined by following factors

- *Terms of engagement of the auditor*
- *Requirements of legislation*
- *Standards on Auditing and other guidance by ISA.*

It should be noted that terms of engagement can not have an overriding effect over the scope decided by the legislation or ISAs.

Following is not within the scope of auditor it is within the scope of Management and those charged with governance:-

1. *Maintenance of books of accounts and records*
2. *Formulation and Implementation of Internal Control system*
3. *Selection and application of accounting policies*
4. *Estimation of accounting estimates*
5. *Preparation and presentation of financial statement.*

It is important to note that Auditors opinion is not an assurance about the future viability of the entity and neither it is an assurance about the future efficiency and effectiveness of the management. It is just an opinion about financial position up to the date and period covered under audit.

Standard on Auditing (SA) 620 (Revised) *

Using the Work of an Auditor's Expert

Q. 1 Who is an Auditor's expert?

An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's expert may be either an auditor's internal expert (who is a partner or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert. (This ISA is only applicable to Auditor's Expert.)

Q..2 Who is management's Expert?

Management's expert - An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements. (For this See SA 500)

Q.3 When to use Expert's Work?

Whether to use expert's services and to what extent to be used is to be determined by considering matters including:

- (a) *The nature of the matter to which that expert's work relates;*
- (b) *The risks of material misstatement in the matter to which that expert's work relates;*
- (c) *The significance of that expert's work in the context of the audit;*
- (d) *The auditor's knowledge of and experience with previous work performed by that expert; and*
- (e) *Whether that expert is subject to the auditor's firm's quality control policies and procedures.*

Q.4 Before engaging an expert what considerations are required?

1. *The auditor shall evaluate whether the auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes. As well as independence of the expert*
2. *The auditor shall obtain a sufficient understanding of the field of expertise of the auditor's expert to enable the auditor to:*

- (a) Determine the nature, scope and objectives of that expert's work for the auditor's purposes; and*
- (b) Evaluate the adequacy of that work for the auditor's purposes.*

Q.5 While engaging and experts what considerations an auditor should have ?

According to SA 620 *The auditor shall agree, in writing when appropriate, on the following matters with the auditor's expert:*

- (a) The nature, scope and objectives of that expert's work;*
- (b) The respective roles and responsibilities of the auditor and that expert;*
- (c) The nature, timing and extent of communication between the auditor and that expert, including the form of any report to be provided by that expert; and*
- (d) The need for the auditor's expert to observe confidentiality requirements.*

Q.6 How an auditor shall evaluate the Adequacy of the Auditor's Expert's Work?

The auditor shall evaluate the adequacy of the auditor's expert's work for the auditor's purposes, including:

- (a) The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence;*
- (b) If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and*
- (c) If that expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data.*

Q.7 What will be the steps shall be taken by the auditor if experts work is inconstant with other Audit evidences ?

If the auditor determines that the work of the auditor's expert is not adequate for the auditor's purposes, the auditor shall:

- (a) Agree with that expert on the nature and extent of further work to be performed by that expert; or*
- (b) Perform further audit procedures appropriate to the circumstances.*

Q.8 Shall auditor mention name of the expert in int's audit report?

The auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the audit opinion.

Further . If the auditor makes reference to the work of an auditor's expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor shall indicate in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion.

SA -700(Revised)

Forming an Opinion on the Financial Statements

Q.1 What is the meaning of financial statement in revised SA 700?

Financial statement in this standard "a complete set of general purpose financial statements, including the related notes". The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial statements, and what constitutes a complete set of financial statements. For example in case of a company companies act requires

A Balance Sheet

A Profit and Loss account

A Cash Flow Statement (if required)

Notes to the accounts and significant accounting policies as referred in accounting standards under CARS (Company Accounting Standard Rules) 2006.

Q.2 What is auditor's duty under this SA?

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. For this, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

That 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) In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:

- (a) *The financial statements adequately disclose the significant accounting policies selected and applied;*
- (b) *The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;*
- (c) *The accounting estimates made by management are reasonable;*
- (d) *The information presented in the financial statements is relevant, reliable, comparable and understandable;*
- (e) *The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements;*
- (f) *The terminology used in the financial statements, including the title of each financial statement, is appropriate.*

Q.3 how an Auditor Forms an Opinion on Financial Statements?

According to SA 700 (Revised) *The auditor shall express an unmodified opinion (generally an unqualified opinion) when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. In different situations the auditor's conclusions will be different for example*
Situation -1 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, the auditor shall modify the opinion in the auditor's report in accordance with SA 705.

Situation -2 :- If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor shall discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, shall determine whether it is necessary to modify the opinion in the auditor's report in accordance with SA 705. For example Financial statements are not in agreement with schedule VI in such situation the matter shall be discussed with management.

Situation -3:- When the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation. However, if in extremely rare circumstances the auditor concludes that such financial statements are misleading; the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report. For example IF company is following schedule VI auditor need not to evaluate the fair presentation.

Q.4 What are the basic elements of the Auditor's Report?

First of all according to SA 700 revised *The auditor's report shall be in writing. With following basic elements*

1. Title

The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor.

2. Addressee
The auditor's report shall be addressed as required by the circumstances of the engagement.

3. Introductory Paragraph

The introductory paragraph in the auditor's report shall

- (a) *Identify the entity whose financial statements have been audited;*
- (b) *State that the financial statements have been audited;*
- (c) *Identify the title of each statement that comprises the financial statements;*
- (d) *Refer to the summary of significant accounting policies and other explanatory information; and*
- (e) *Specify the date or period covered by each financial statement comprising the financial statements.*

4. Management's Responsibility for the Financial Statements

This section of the auditor's report describes the responsibilities of those in the organisation that are responsible for the preparation of the financial statements.

5. Auditor's Responsibility

The auditor's report shall state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit.

6. Auditor's Opinion

When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:

(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].

Special Note :- . If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibility under the *SA's* to report on the financial statements, Like in company 227 (1*SA*), (2) (3) (4) (*ATCARO*), these other reporting responsibilities shall be addressed in a separate section in the auditor's report that shall be sub-titled "Report on Other Legal and Regulatory Requirements,"

7. Signature of the Auditor

The auditor's report shall be signed.

8.. Date of the Auditor's Report

The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that:

(a) All the statements that comprise the financial statements, including the related notes, have been prepared; and

(b) Those with the recognised authority have asserted that they have taken responsibility for these financial statements.

8. Place of Signature

The auditor's report shall name specific location, which is ordinarily the city where the audit report is signed.

Q.5 What if the Auditor's Report Prescribed by Law or Regulation under which an audit is conducted?

If the auditor is required by any law or regulation to use a specific layout or wording of the auditor's report, the auditor's report shall refer to Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements:

(a) A title;

(b) An addressee, as required by the circumstances of the engagement;

(c) An introductory paragraph that identifies the financial statements audited;

(d) A description of the responsibility of management for the preparation of the financial statements;

(e) A description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit, that includes:

☐ *A reference to Standards on Auditing and the law or regulation; and*

☐ *A description of an audit in accordance with these Standards;*

(f) An opinion paragraph containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements

(g) The auditor's signature;

(h) The date of the auditor's report; and

(i) The place of signature

Appendix Illustrative Formats of Auditors' Reports on Financial Statements

Illustration 1:

Circumstances include the following:

□□ Audit of a complete set of separate general purpose financial statements of a company prepared under the Companies Act, 1956 financial reporting framework, which is a fair presentation framework.

□□ The terms of the audit engagement reflect description of management's responsibility for the financial statements in SA 210 (Revised).

□□ The report is unmodified and does not include either an Emphasis of Matter paragraph or an Other Matter(s) paragraph.

□□ In addition to the audit of financial statements, the auditor has other reporting responsibilities required under the Companies Act, 1956 and/or other regulatory requirements.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Financial Statements

We have audited the accompanying financial statements of ABC Company Limited ("the Company"), which comprise the Balance Sheet as at March 31, 20XX, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making these risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the 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:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 20XX;

(b) in the case of the Profit and Loss Account, of the profit/loss for the year ended on that date; and

(c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

1. As required by the Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.

2. As required by section 227 (3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of these books [and proper returns adequate for the purposes of our audit have been received from branches not visited by us];

c. the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement dealt with by this Report are in agreement with the books of account [and with the returns received from branches not visited by us];

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956;

e. on the basis of written representations received from the directors as on March 31, 20XX, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 20XX, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

f. Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the Company.

*For XYZ and
Co.*

*Chartered Accountants
Firm's Registration Number*

*Signature
(Name of the Member Signing the Audit Report)
(Designation)
Membership Number*

Place of Signature

Date

Standard on Auditing (SA) 705

Modifications to the Opinion in the Independent Auditor's Report

Q.1 What do you mean by Modification to the opinion ?

When the auditor is not giving Unmodified opinion it said he is modifying his opinion. According to SA 706 (Revised) Modified opinion refers to a qualified opinion, an adverse opinion or a disclaimer of opinion.

Q.2 When Auditor will decide to modify his opinion?

According to SA 705 (R) The auditor shall modify the opinion in the auditor's report when:

(a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or

(b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Q.3 What will be the consequence of a modified audit report?

This SA establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:

(a) The nature of the matter giving rise to the modification, that is, whether the financial statements are

materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and

(f) The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

Q.4 When an auditor shall express a Qualified Opinion?

The auditor shall express a qualified opinion when:

*(a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are **material, but not pervasive**, to the financial statements; or*

(f) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Q.5 When an auditor shall express an Adverse Opinion?

*The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are **both material and pervasive** to the financial statements.*

Q.6 When an auditor shall express a Disclaimer of Opinion

The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

*The auditor shall disclaim an opinion when, **in extremely rare circumstances involving multiple uncertainties**, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.*

Nature of Matter Giving Rise to the Modification	Auditor's 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

Illustrative Format of QUALIFIED OPINION

Case-1 Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements. The audit opinion is qualified for the misstatement.

The Company's inventories are carried in the Balance Sheet at Rs. XXX. Management has not stated the inventories at the lower of cost and net realisable value but has stated them solely at cost, which constitutes a departure from the Accounting Standards referred to in sub-section (3C) of section 211 of the Act. The Company's records indicate that had management stated the inventories at the lower of cost and net realisable value, an amount of Rs. XXX would have been required to write the inventories down to their net realisable value. Accordingly, cost of sales would have been increased by Rs. XXX, and income tax, net profit and shareholders' funds would have been reduced by Rs. XXX, Rs. XXX and Rs. XXX, respectively.

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 paragraph, the 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:

- (a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 20XX;*
- (b) in the case of the Profit and Loss Account, of the profit/ loss for the year ended on that date; and*
- (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.*

Case-2 The auditor was unable to obtain sufficient appropriate audit evidence regarding existence of investment in a foreign company. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the financial statement. The audit opinion is qualified for the misstatement.

Basis for Qualified Opinion

ABC Company Limited's investment in XYZ Company, a foreign company acquired during the year and accounted as Held to maturity investment in Balance sheet of ABC company Ltd. We were unable to obtain sufficient appropriate audit evidence about the existence of ABC Company Limited's investment in XYZ Company as at March 31, 20XX because we were denied access to the financial information relating to the same, management. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the 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:

- (a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 20XX;*
- (b) in the case of the Profit and Loss Account, of the profit/ loss for the year ended on that date; and*
- (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.*

Case-3

The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. That is, the auditor was unable to

obtain audit evidence about the entity's inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements. A disclaimer of audit opinion is given in the circumstances.

Basis for Disclaimer of Opinion

We were appointed as auditors of the Company after March 31, 20XX and thus could not observe the counting of physical inventories at the beginning and end of the year. Accordingly, we were unable to satisfy ourselves by alternative means concerning the inventory quantities held at December 31, 20X0 and March 31, 20X1 which are stated in the Balance Sheet at Rs. XXX and Rs. XXX, respectively. In addition, the introduction of a new computerised accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable. As of the date of our audit report, management was still in the process of

rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the Balance Sheet at a total amount of Rs. XXX as at March 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the Statement of Profit and Loss and Cash Flow Statement.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

Standard on Auditing (SA) 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

Q.1 What do you mean by Emphasis of Matter paragraph in audit report ?

According to SA 706 A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:

- (a) Include it immediately after the Opinion paragraph in the auditor's report;
- (b) Use the heading "Emphasis of Matter", or other appropriate heading;
- (c) Include in the paragraph a clear reference to the matter being emphasised and to where relevant disclosures that fully describe the matter can be found in the financial statements; and
- (d) Indicate that the auditor's opinion is not modified in respect of the matter emphasised.

For Example : If there is uncertainty relating to a pending exceptional litigation matter. This is highlighted in the auditor's report by an Emphasis of Matter paragraph.

after opinion paragraph following shall be added

"We draw attention to Note X to the financial statements which describes the uncertainty related to the outcome of the lawsuit filed against the Company by XYZ Company. Our opinion is not qualified in respect of this matter."

Q.2 What do you mean by other matter paragraphs in the independent auditors report?

A paragraph included 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.

If the auditor considers it necessary to do so he should include a paragraph in the auditor's report, with the heading "Other Matter", or other appropriate heading. The auditor shall include this paragraph immediately after the Opinion paragraph and any Emphasis of Matter paragraph, or elsewhere in the auditor's report if the content of the Other Matter paragraph is relevant to the Other Reporting Responsibilities section

For example : In case of auditor of CFS The report includes an Other Matter paragraph in respect of the auditor's responsibility in respect of subsidiaries not audited by him but which form part of the consolidated financial statements under report.

Other Matter

"We did not audit the financial statements of certain subsidiaries, whose financial statements reflect total assets (net) of Rs. XXXXX as at March 31, 20XX, total revenues of Rs. XXXXX and net cash outflows amounting to Rs. XXXXX for the year then ended. These financial statements have been audited by other auditors whose reports have been furnished to us by the Management, and our opinion is based solely on the reports of the other auditors. Our opinion is not qualified in respect of this matter."

Standard on Auditing (SA) 710 (Revised)*

Comparative Information—Corresponding Figures and Comparative Financial Statements

Q.1 What do you mean by Comparative Information and its types ?

According to SA 710 Comparative information means the amounts and disclosures included in the

financial statements in respect of one or more prior periods in accordance with the applicable financial reporting framework. Mainly these can be presented in either of the following way

By way of Corresponding figures – *Comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial statements, and are intended to be read only in relation to the amounts and other disclosures relating to the current period (referred to as “current period figures”). The level of detail presented in the corresponding amounts and disclosures is dictated primarily by its relevance to the current period figures.*

By way of Comparative financial statements – *Comparative information where amounts and other disclosures for the prior period are included for comparison with the financial statements of the current period but, if audited, are referred to in the auditor’s opinion. The level of information included in these comparative financial statements is comparable with that of the financial statements of the current period.*

Q.2 What is objective of the auditor under this SA?

According to SA 710 The objectives of the auditor are:

(a) To obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable financial reporting framework; and

(b) To report in accordance with the auditor’s reporting responsibilities.

Q.3 What are the requirements of Audit Reporting under this SA?

In relation to Corresponding Figures following may be the different situation:-

Situation-1 Current years report is unqualified and aud previous auditors report was also unqualified: - *When corresponding figures are presented, the auditor’s opinion usually shall not refer to the corresponding figures. Unqualified opinion as such implies auditors satisfaction related to corresponding figures.*

Situation -2 if the auditor’s report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is resolved:- *the auditor shall modify the auditor’s opinion on the current period’s financial statements*

Situation -3 If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued :-, *the auditor shall verify whether the misstatement has been dealt with as required under the applicable financial reporting framework and, if that is not the case, the auditor shall express a qualified opinion or an adverse opinion in the auditor’s report on the current period financial statements, modified with respect to the corresponding figures included therein.*

Situation -4 If the prior period financial statements were not audited:- *the auditor shall state in an Other Matter paragraph in the auditor’s report that the corresponding figures are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period’s financial statements*

As in Indian FRF no corresponding FS are there we are not discussing the same.

Standard on Auditing (SA) 800

Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

Q.1 What is Special Purpose Framework for preparation and presentation of financial statements ?

According to SA-800 A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance Framework. For example if an entity is presenting the cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors; or another example may be □ The financial reporting provisions established by a regulator to meet the requirements of that regulator; suppose for the purpose of sanctioning a grant.

Q.2 What considerations are required to conduct audit of such special purpose financial statements?

In an audit of special purpose financial statements, the auditor shall obtain an understanding of:

- (a) The purpose for which the financial statements are prepared;*
- (b) The intended users; and*
- (c) The steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances.*

SA 700 (Revised) deals with the form and content of the auditor's report. In the case of an auditor's report on special purpose financial statements:

- (a) The auditor's report shall also describe the purpose for which the financial statements are prepared and, if necessary, the intended users, or refer to a note in the special purpose financial statements that contains that information; and*
- (b) If management has a choice of financial reporting frameworks in the preparation of such financial statements, the explanation of management's responsibility for the financial statements shall also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.*

Special Note :- *The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. The auditor shall include this paragraph under an appropriate heading. For Example*

"Without modifying our opinion, we draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist ABC Company Ltd. to comply with the financial reporting provisions of the contract referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for ABC Company Ltd. and DEF Company Ltd. and should not be distributed to or used by parties other than ABC Company Ltd. or DEF Company Ltd."

Standard on Auditing (SA) 805

Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial statement

Q.1 What do you mean by Single financial statements, specific elements, accounts or item of a Financial Statement?

Single financial statement means a part of complete set of financial statement (for example, a cash flow statement) and special elements (for example, cash and bank balances). Sometimes management requires an audit of the same for example The financial statement has been prepared by management of the entity in accordance with the cash receipts and disbursements basis of accounting to respond to a request for cash flow information received from a creditor. Now auditor is required to audit the same. This kind of requirement of audit may found in special items like audit of Accounts receivable, allowance for doubtful accounts receivable, inventory, the liability for accrued benefits of a private pension plan, the recorded value of identified intangible assets, or the liability for "incurred but not reported" claims in an insurance portfolio, including related notes.

Q.2 What considerations are required to conduct such an audit?

Auditor shall follow all SAs applicable to circumstances and should report accordingly. how to and express opinion and how to emphasize the matter is illustrated below

Opinion

In our opinion, the financial statement presents a true and fair view of the cash receipts and disbursements of ABC Company Ltd. for the year ended March 31, 20X1 in accordance with the cash receipts and disbursements basis of accounting described in Note X.

Basis of Accounting

Without modifying our opinion, we draw attention to Note X to the financial statement, which describes the basis of accounting. The financial statement is prepared to provide information to XYZ Creditor. As a result, the statement may not be suitable for another purpose.

Standard on Auditing (SA) 810 Engagements to Report on Summary Financial Statements

What is Summary financial statements ?

According to Sa 806 Historical financial information that is derived from financial statements but that contains less detail than the financial statements, while still providing a structured representation consistent with that provided by the financial statements of the entity's economic resources or obligations at a point in time or the changes therein for a period of time. Different jurisdictions may use different terminology to describe such historical financial information.

Before accepting such an assignment what is auditors duty?

The auditor shall, ordinarily, accept an engagement to report on summary financial statements in accordance with this SA only when the auditor has been engaged to conduct an audit in accordance with SAs of the financial statements from which the summary financial statements are derived. Before accepting an engagement to report on summary financial statements, the auditor shall:

- (a) Determine whether the applied criteria are acceptable;*
- (b) Obtain the agreement of management that it acknowledges and understands its responsibility:*
 - i. For the preparation of the summary financial statements in accordance with the applied criteria;*
 - ii. To make the audited financial statements available to the intended users of the summary financial statements without undue difficulty and*
 - iii. To include the auditor's report on the summary financial statements in any document that contains the summary financial statements and that indicates that the auditor has reported on them*

What shall be the procedure sfor the audit of above?

The auditor shall perform the following procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements:

- (a) Evaluate whether the summary financial statements adequately disclose their summarised nature and identify the audited financial statements.*
- (b) When summary financial statements are not accompanied by the audited financial statements, evaluate whether they describe clearly:*
 - (i) From whom or where the audited financial statements are available; or*
 - (ii) The law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements.*
- (c) Evaluate whether the summary financial statements adequately disclose the applied criteria.*
- (d) Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be re-calculated from the related information in the audited financial statements.*
- (e) Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.*

(f) Evaluate, in view of the purpose of the summary financial statements, whether the summary financial statements contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.

(g) Evaluate whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements.

Standard on Review Engagements (SRE) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity

Q.1 What are the procedures for a Review of Interim Financial Information as suggested by SRE-2410

Step-1 . The auditor should have an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both annual and interim financial information, sufficient to plan and conduct the engagement so as to be able to:

- (a)** Identify the types of potential material misstatement and consider the likelihood of their occurrence; and
- (b)** Select the inquiries, analytical and other review procedures that will provide the auditor with a basis for reporting whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.

Step-2 The auditor should obtain evidence that the interim financial information agrees or reconciles with the underlying accounting records.

Step-3 The auditor should inquire whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the interim financial information.

Step-4 Consider the adequacy of the disclosure about such matters in the interim financial information.

Step-5. When a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment should be made for the interim financial information to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor should make additional inquiries or perform other procedures to enable the auditor to express a conclusion in the review report.

Step-6 The auditor should evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the auditor's attention are material to the interim financial information.

Step-7 . The auditor should obtain written representation from management that:

(a) It acknowledges its responsibility for the design and implementation of internal control to prevent and detect fraud and error;

(b) The interim financial information is prepared and presented in accordance with the applicable financial reporting framework;

(c) It believes the effect of those uncorrected misstatements aggregated by the auditor during the review are immaterial, both individually and in the aggregate, to the interim financial information taken as a whole. A summary of such items is included in or attached to the written representations;

(d) It has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity;

(e) It has disclosed to the auditor the results of its assessment of the risks that the interim financial

information may be materially misstated as a result of fraud;

(f) It has disclosed to the auditor all known actual or possible noncompliance with laws and regulations whose effects are to be considered when preparing the interim financial information; and

(g) It has disclosed to the auditor all significant events that have occurred subsequent to the balance sheet

date and through to the date of the review report that may require adjustment to or disclosure in the

interim financial information.