Revised and Newly Issued Standards Applicable for May 2011 Exams as per ICAI Notification

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I hope that readers will be satisfied with the contents of these notes. Still, there always remains scope for improvement. I will be grateful to the readers for their valuable feedback for improvement of these notes. Wishing every success to the readers.

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<table>
<tr><th colspan="3">SA – 200 (Revised) “Overall Objectives of the Independent Auditor and Conduct of Audit in accordance with SAs</th></tr>
<tr><td>OVERALL OBJECTIVES OF THE AUDITOR</td><td colspan="2">In conducting an audit of financial statements, the overall objectives of the auditor are:
(a) To obtain reasonable assurance about whether the F. S. as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the F.S. are prepared, in all material respects, in accordance with an applicable FRF, and
(b) To report on the F.S. and communicate as required by the SAs, in accordance with the auditor’s findings.
In all cases when reasonable assurance cannot be obtained and a qualified opinion in the auditor’s report is insufficient, the SAs require that the auditor disclaim an opinion or withdraw from the engagement.</td></tr>
<tr><td rowspan="2">REQUIREMENTS OF STANDARD</td><td>(a) Ethical Requirements Relating to an Audit of F. S.</td><td>1. The auditor shall comply with relevant ethical requirements, including independence.
2. Relevant ethical requirements ordinarily comprise the Code of Ethics issued by the ICAI. The fundamental principles are:
• Integrity;
• Objectivity;
• Professional competence and due care;
• Confidentiality; and
• Professional behavior.
3. Independence comprises both independence of mind and independence of appearance.
4. Independence enhances the auditor’s ability to act with integrity to be objective and to maintain an attitude of professional skepticism.</td></tr>
<tr><td>(b) Professional Skepticism</td><td><u>Meaning</u>:
• An <u>attitude</u> that includes
• a <u>questioning mind</u>, being <u>alert to conditions</u> which may indicate
• <u>possible misstatement</u> due to error or fraud, and
• a <u>critical assessment</u> of audit evidence.
<u>Requirements</u>:
1. The auditor shall plan and perform an audit with professional skepticism.
2. It Reduces risk of:
• Overlooking unusual circumstances.
• Over generalising when drawing conclusions from audit observations.
• Using inappropriate assumptions in determining N, T, E of audit procedures & evaluating the results thereof.
3. Professional skepticism includes being alter to:
• Contradictory audit evidence.
• Questions on reliability of documents.
• Conditions indicating possible frauds.
• Circumstances suggesting need for audit procedures in addition to those suggested in SAs.</td></tr>
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<table>
<tr><td></td><td>(c) Professional Judgment</td><td colspan="2">Meaning:
• The application of relevant training, knowledge and experience,
• within the context provided by auditing, accounting and ethical standards,
• in making informed decisions about the courses of action
• that are appropriate in the circumstances of the audit engagement.
Requirements:
1. The auditor shall exercise professional judgment in planning and performing an audit of financial statements.
2. Its exercise depends on facts & circumstances known to the auditor.
3. Professional Judgement is to be exercised throughout the audit and to be appropriately documented.
4. Professional Judgement is important when deciding about:
• Materiality & audit risk.
• NTE of audit procedures.
• Evaluating sufficiency & appropriateness of audit procedures.
• Evaluating mngt judgment in applying applicable FRF.
• Drawing conclusions based on audit evidence.</td></tr>
<tr><td></td><td>(d) Sufficient Appropriate Audit Evidence and Audit Risk</td><td colspan="2">• To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence 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.
• Reasonable Assurance: In the context of an audit of financial statements, a high, but not absolute, level of assurance.
• Sufficient Appropriate Audit Evidence: Sufficiency refers to quantum and Appropriateness refers to quality.
• Audit Risk: The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. It is a function of the risks of material misstatement and detection risk.</td></tr>
<tr><td></td><td rowspan="2">(e) Conduct of an Audit in Accordance with SAs</td><td>1. Compliance with SAs Relevant to the audit</td><td>➢ The auditor shall comply with all SAs relevant to the audit.
➢ An SA is relevant to the audit when the SA is in effect and the circumstances addressed by the SA exist.
➢ The auditor shall have an understanding of the entire text of an SA.
➢ The auditor shall not represent compliance with SAs in the auditor's report unless the auditor has complied with the requirements of this SA and all other SAs relevant to the audit.</td></tr>
<tr><td></td><td>2. Objectives states in Individual SAs</td><td>➢ Use this objective to achieve overall objectives.
➢ Having regard to interrelationship between SAs:
• Determine if any audit procedure in addition to that required by SAs is necessary.
• Evaluate whether sufficient appropriate audit evidence has been obtained.</td></tr>
</table>

		3. *Complying with relevant Requirements*	unless: ➢ Entire SA is not relevant. ➢ Requirement is not relevant because it is conditional & condition does not exist. ➢ Departure form requirement in exceptional circumstances – perform alternative procedures to achieve aim of requirement.
		4. *Failure to Achieve an Objective*	➢ Evaluate if the failure: • Prevents auditor from achieving the overall objectives of the auditor, and • Necessitates modified audit opinion. or • Withdraw from the engagement. ➢ It is a significant matter for documentation.

APPLICATION AND OTHER EXPLANATORY MATERIAL COVERED BY SA 200

Scope of Audit	• The auditor's opinion on the financial statements deals with whether the F.S. are prepared, in all material respects, in accordance with the applicable FRF. • Such an opinion is common to all audits of financial statements. • The auditor's opinion therefore does not assure, the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity. • In some cases, however, the applicable laws and regulations may require auditors to provide opinions on other specific matters, such as the effectiveness of internal control, or the consistency of a separate management report with the financial statements. • While the SAs include requirements and guidance in relation to such matters to the extent that they are relevant to forming an opinion on the financial statements, the auditor would be required to undertake further work if the auditor had additional responsibilities to provide such opinions.
Preparation of F.S.	An audit in accordance with SAs is conducted on the premise that management and, where appropriate, TCWG have responsibility: (1) For the preparation and presentation of the F.S. in accordance with the applicable FRF; this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of F.S. that are free from material misstatement, whether due to fraud or error; and (2) To provide the auditor with: (i) All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements; (ii) Any additional information that the auditor may request from management and, where appropriate, TCWG; and (iii) Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence. (3) As part of their responsibility for the preparation and presentation of the financial statements, management and, where appropriate, TCWG are responsible for:

	♦ The identification of the applicable FRF, in the context of any relevant laws or regulations. ♦ The preparation and presentation of the F.S. in accordance with that framework. ♦ An adequate description of that framework in the financial statements. The preparation of the F.S. requires mngt. to exercise judgment in making accounting estimates that are reasonable in the circumstances, as well as to select and apply appropriate accounting policies. These judgments are made in the context of the applicable FRF.
Risk of Material misstatement	(1) The risks of material misstatement may exist at two levels: • The overall financial statement level; and • The assertion level for classes of transactions, account balances, and disclosures. (2) Risks of material misstatement at the overall financial statement level refer to risks of material misstatement that relate pervasively to the financial statements as a whole and potentially affect many assertions. (3) Risks of material misstatement at the assertion level are assessed in order to determine the NTE of further audit procedures necessary to obtain sufficient appropriate audit evidence. (4) The risks of material misstatement at the assertion level consist of two components: <u>***inherent risk and control risk.***</u> (5) The SAs do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the "risks of material misstatement".
<u>***Inherent Limitations for an audit***</u>	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, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. The inherent limitations of an audit arise from: (1) <u>*The nature of financial reporting*</u>: The preparation of F.S. involves judgment by management in applying the requirements of the applicable FRF to the facts and circumstances of the entity. For ex: Accounting estimates (2) <u>*The nature of audit procedures*</u>: • Management & others do not provide complete information intentionally / unintentionally. • Audit procedures used to gather audit evidence may be ineffective against fraud detection. • Audit is not an official investigation into alleged wrongdoings: (3) <u>*Balance between benefit and Cost*</u>: • User expectation that the auditor will form an opinion on the F.S. within a reasonable period of time and at a reasonable cost. • It results into use of Test checking and putting most of efforts over the areas having risk of material misstatement with corresponding less efforts in other areas.

SA 220 (Revised) – Quality Control for an Audit of Financial Statements

Objectives of the auditor

Implement QC Procedures
↓
At Engagement Level
↓
That provide Reasonable assurance
↓
Audit complies with professional standards & legal requirements & Audit Report issued is appropriate in the circumstances

Requirements to implement QC Procedures

a. ***Leadership Responsibilities for Quality in Audits***

Engagement Partner (EP) to take responsibility for overall quality on each audit engagement assigned to him / her. As a part of this responsibility Engagement Partner should emphasizes the following to the engagement Team (ET):

- Compliance with professional Standards and legal requirements.
- Compliance with firm's Quality Control Policies.
- Issuance of appropriate audit report.
- Ability to raise concerns without fear.
- Quality is essential & indispensable in engagement performance.

b. ***Relevant Ethical requirements***

(1) EP to remain alert for evidence of non-compliance with relevant ethical requirements by E through:
- Inquiry.
- Observation.

(2) If there is an indications of non-compliance with relevant ethical requirements, EP should:
- Consult others in the firm.
- Determine appropriate action.

c. ***Independence***

Form an conclusion on compliance with applicable independence requirements
→ Obtain relevant information from Firm
↓ Identify & Evaluate circumstances & Relationship that threatens independence
← Evaluate information on identified breaches.
↓ Determine if these threaten independence of audit engagement.
→ Take appropriate action to eliminate such threats **or**
Promptly report inability to take appropriate action to firm.

d. ***Acceptance and Continuance of Client Relationship and audit Engagement***

Engagement Partner

- Be Satisfied → Appropriate procedures regarding client acceptance/continuance have been followed.
- Determine → Conclusions reached are appropriate.

If Engagement partner obtains information that would have caused firm to withdraw the engagement, communicate information promptly to the firm

e. ***Assignment of Engagement team***	EP to be satisfied that ET & Auditor's Expert not part of ET have appropriate competence & capabilities to: ➢ Perform audit engagement in accordance with professional standards and regulatory or legal requirements, and ➢ Enable an auditor's report that is appropriate in the circumstances.	
f. ***Engagement Performance***	***Direction, Supervision and Performance***	The Engagement Partner shall take responsibility for: • The Direction, supervision and performance of the audit engagement in compliance with professional standards and regulatory and legal requirements; and • Enable the auditor's report that is appropriate in the circumstances to be issued.

	Reviews	The Engagement partner shall take the following responsibilities:
		• Reviews are being performed in accordance with the firm's review policies and procedures.
		• Be satisfied that Sufficient Appropriate Audit Evidence has been obtained to support the conclusions reached and audit report to be issued through:
		  ➢ Review of audit documentation.
		  ➢ Discussion with engagement team.

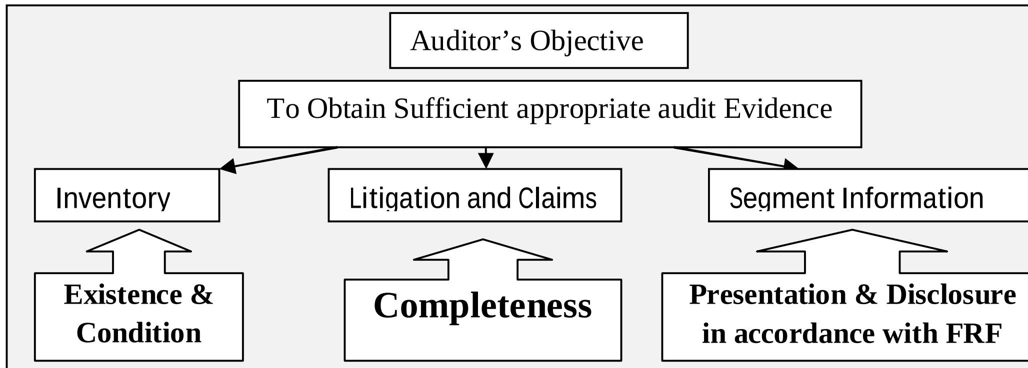
	Consultation	Engagement Partner shall: ➢ Take responsibility for ET undertaking consultation on difficult issues. ➢ Be satisfied that members of ET have undertaken such consultation. ➢ Be satisfied that nature & scope and conclusions of such consultations are agreed with consultant. ➢ Determine that conclusions resulting from such conclusions have been implemented.
	Engagement Quality Control Review	required in case of audit of F.S. of <u>*listed entities*</u> and other audit engagement for which <u>*EQCR is required*</u>. Engagement Partner shall: ➢ Determine that an EQC Reviewer had been appointed. ➢ Discuss significant matters arising during audit engagement with EQC reviewer. ➢ Not date the audit report until completion of EQC Review. <u>*Matters to be evaluated by EQC Reviewer*</u>: The EQC reviewer shall evaluate the following: • Discussion of significant matters with ET. • Review of FS & proposed audit report. • Review of selected audit documentation re significant judgments & conclusions of ET. • Evaluation of conclusions reached. • Considering whether proposed audit report is appropriate.

		<u>Additional Considerations in audit of F.S. of Listed Entities</u>: • ET's evaluation of firm's independence in relation to audit engagement. • Whether appropriate consultation has taken place on matters involving differences of opinion/ difficult matters & conclusions arising from consultations. • Whether audit documentation selected for review reflects the work performed w.r.t. significant judgments made & supports the conclusions reached.
	Differences of opinion	It may arise: • Within the ET, • With those consulted, or • Between the EP and EQC Reviewer. Engagement Team shall follow the firm's policies and procedures for dealing with and resolving differences of opinion.
g. ***Monitoring***	1. Monitoring process provides the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. 2. To Monitor QC Policies Engagement Partner shall consider: • Results of firm's monitoring process. • Whether deficiencies noted may affect the audit engagement.	
h. Documentation	*<u>By Auditor:</u>* • Issues identified w.r.t. compliance with relevant ethical requirements and how they were resolved. • Conclusions on compliance with independence requirements • Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements. • The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement. *<u>By EQC Reviewer</u>*: • Procedures for engagement quality control review have been performed; • EQCR has been completed on or before the date of the auditor's report; and • The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.	

SA 501 (revised) - Audit Evidence—Specific Considerations for Selected Items

This SA deals with specific considerations by the auditor in obtaining sufficient and appropriate audit evidence, with respect to certain aspects of inventory, litigation and claims, and segment information in an audit of financial statements.

Auditor's Objective



Audit Procedures w.r.t. Inventory

When inventory is material to the F.S., the auditor shall obtain sufficient appropriate audit evidence regarding the ***existence and condition*** of inventory by:

(a) *Attendance at physical inventory* counting, unless impracticable, to:

- *Evaluate* mngt. instructions & procedures for recording & controlling the results of the entity's physical inventory counting;
- *Observe* the performance of management's count procedures;
- *Inspect* the inventory;
- Perform test counts;

(b) Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results.

Procedures in Special Circumstances

(a) Inventory counting conducted at date other than B/S date	Perform audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the F.S. are properly recorded.
(b) Auditor unable to attend Inventory Count	make or observe some physical counts on an alternative date, and perform audit procedures on intervening transactions
(c) Attendance at inventory count is impracticable	• Perform alternative audit procedures to obtain S.A.A.E. regarding existence and condition of inventory. *Alternative Audit Procedure*: Inspection of documentation of the subsequent sale of specific inventory items acquired/ purchased prior to physical inventory counting • If it is not possible to do so, modify the opinion in the auditor's report in accordance with SA 705.
(d) Inventory under custody and control of Third Party	Obtain S.A.A.E by performing the following: (a) Request confirmation from third party (b) Perform Inspection / other audit procedure. If doubt arises over the integrity/Objectivity of third party, perform the following: (a) Attending/arranging for another auditor to attend, the third party's physical counting of inventory, if practicable. (b) Obtaining service auditor's report, on the adequacy of the third party's I.C. w.r.t. proper count and safeguard of inventory. (c) Inspecting documentation, for example, warehouse receipts. (d) Requesting confirmation from other parties when inventory pledged as collateral.

<table>
<tr><td rowspan="6">Audit Procedures w.r.t. Litigation and Claims</td><td colspan="2">• Inquiry: of Mngt. & others within entity.
• Review – minutes of meetings of TCWG, communication between entity & external legal counsel.
• Review – legal expenses account.</td></tr>
<tr><td colspan="2">Procedures in Special Circumstances</td></tr>
<tr><td>(a) Auditor’s Assessment of Risk of material misstatement w.r.t. existence of Litigation or Claim.</td><td>• Seek Communication directly with Entity’s External legal Counsel.
• If law/regulation or respective legal professional body prohibits entity’s external legal counsel from communicating directly with the auditor, the auditor shall perform alternative audit procedures.</td></tr>
<tr><td>(b) Management Refuses to Permit auditor to communicate</td><td rowspan="3">Modify Opinion in accordance with SA 705</td></tr>
<tr><td>(c) External Legal Counsel Refuses</td></tr>
<tr><td>(d) Auditor unable to collect SAAE from alternate procedures.</td></tr>
<tr><td></td><td colspan="2">Written Representation: from Mngt. and TCWG that
(a) All known actual/possible Litigation & Claim affecting FS have been disclosed to the auditor; and
(b) Appropriately accounted for and disclosed in accordance with the applicable FRF.</td></tr>
<tr><td>Audit Procedures w.r.t. Segment Information</td><td colspan="2">The auditor shall obtain sufficient appropriate audit evidence regarding the <u>presentation and disclosure</u> of segment information in accordance with the applicable financial reporting framework by:
(a) <u>Obtaining an understanding</u> of the methods used by management in determining segment information, &
• Evaluating whether such methods are likely to result in disclosure in accordance with the applicable FRF; and
• Where appropriate, testing the application of such methods; and
(b) Performing <u>analytical procedures</u> or <u>other audit procedures</u> appropriate in the circumstances.</td></tr>
</table>

Previous Years Questions

Q. No. 1: You are the auditor of Easy Communications Ltd. for the year 2009–10. The inventory as at the end of the year i.e. 31.3.10 was Rs. 2.25 crores. Due to unavoideable circumstances, you could not be present at the time of annual physical verification. Under the above circumstances how would you ensure that the physical verification conducted by the management was in order? [Nov. 08 – New (5 Marks)]

Answer: Refer “Audit Procedures w.r.t. Inventory” – Special circumstances, Point (b & c) – *Auditor unable to attend* and *Attendance at inventory count is impracticable*.

SA 505 (Revised) External Confirmation

<table>
<tr><td rowspan="3">Meaning & Type of External Confirmation</td><td colspan="2">Audit evidence obtained as a <u>direct written response</u> to the auditor from a <u>third party (the confirming party)</u>, in <u>paper form, or by electronic or other medium</u>. 2 types:</td></tr>
<tr><td>Positive confirmation request</td><td>A request that the confirming party respond directly to the auditor indicating <u>whether the confirming party agrees or disagrees</u> with the information in the request, or providing the requested information</td></tr>
<tr><td>Negative confirmation request</td><td>A request that the confirming party respond directly to the auditor only <u>if the confirming party disagrees</u> with the information provided in the request.</td></tr>
<tr><td rowspan="4">External Confirmation Procedures</td><td>a. Determining the information to be confirmed or requested</td><td>regarding
• Account balances & their elements.
• Terms of agreements/ contracts/ transactions.
• Absence of certain conditions such as “side agreements”.</td></tr>
<tr><td>b. Selecting the appropriate confirming party</td><td>Responses to confirmation requests provide more relevant and reliable audit evidence when confirmation requests are sent to a confirming party the auditor believes is knowledgeable about the information to be confirmed.</td></tr>
<tr><td>c. Designing the confirmation requests</td><td>It also includes:
• determining that requests are properly addressed, and
• contain return information for responses to be sent directly to the auditor.
<u>Factors to be considered while designing External Confirmation requests</u>:
(i) Assertion being addressed.
(ii) Specific identified RMM.
(iii) Layout & presentation of request.
(iv) Prior experience.
(v) Method of communication.
(vi) Mngt authorisation/ encouragement to Confirming Party to respond to auditor.
(vii) Ability of Confirming Party to provide/ confirm requested info.</td></tr>
<tr><td>d. Sending the requests</td><td>including follow-up requests when applicable, to the confirming party.</td></tr>
<tr><td colspan="3">AUDIT PROCEDURES IN SPECIAL CIRCUMSTANCES</td></tr>
<tr><td rowspan="2">Management refuses to allow the auditor to send a confirmation request</td><td colspan="2">(a) Inquire as to reasons and seek evidence as to their validity & reasonableness;
(b) Evaluate the implications of refusal on the assessment of risks of material misstatement; and
(c) Perform alternative audit procedures.</td></tr>
<tr><td>Mngt. refusal appears to be unreasonable
Or
Auditor unable to obtain evidence from alternative audit procedure.</td><td>(a) Communicate to TCWG in accordance with SA 260.
(b) Implications for the audit;
(c) Effect on Auditor’s opinion in accordance with SA 705.</td></tr>
</table>

Results of External Confirmation Procedure	• Factors raising doubt over reliability of response • Response to request is not reliable. • Confirming party do not respond • No confirmation obtained when auditor determines that response is necessary and alternative procedure will not provide the evidence auditor requires.	→ • Obtain further evidence to resolve doubts. → • Consider its affect on NTE of other procedures. → • Perform Alternative Audit procedure. → • Determine its effect on auditor's opinion in accordance with SA 705.
Exception occurs	Exception is an response that indicates a difference between (a) information requested to be confirmed, or contained in the entity's records, and (b) information provided by confirming party • Investigate to determine whether or not they are indicative of misstatements.	
Limited use of Negative Confirmations	Negative confirmations provide less persuasive audit evidence than positive confirmations. Accordingly, the auditor shall use negative confirmation requests as the sole substantive audit procedure only when all of the following conditions are present: (a) Low Risk of material misstatement and auditor has obtained sufficient appropriate audit evidence regarding the operating effectiveness of controls. (b) The population comprises a large number of small, homogeneous, account balances or transactions. (c) A very low exception rate is expected. (d) The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.	
Evaluating the Evidence Obtained	The auditor shall evaluate (a) whether the results of the external confirmation procedures provide relevant & reliable audit evidence, or (b) whether performing further audit procedures is necessary.	

<u>Previous Years Questions</u>

Q. No. 1: As an auditor how would you deal with the following: When the audit team visited the client to perform substantive audit of debtor, the client produced ledger account of customers and confirmations for the top 10 customers. One of the debtors was more than 5 years old, but it had confirmed his balance.

[May 10 – Old (5 Marks)]

Answer: External confirmation is the process of obtaining and evaluating audit evidence through a direct communication from a third party in response to a request for information about a particular item affecting assertions made by the management in the financial statements.

As per SA 505 (Revised) "External conformations", the auditor is required to maintain a control over the process of selecting those to whom a request will be sent out, the preparation and sending of confirmation requests and responses to those requests. This is because there have been several cases of clients presenting forged confirmation to auditors when such control was absent.

One of the debtors of more than 5 years old had confirmed his balance. The auditor should enquire into the debtor whose dues are outstanding for 5 years or more about his financial abilities and why he has not paid, reasons behind the same, and if found adverse, the client should be advised to provide for "Provision for bad debts' and also to confirm that it is not a forged confirmation.

Q. No. 2: Moon Limited replaced its statutory auditor for the Financial year 2009-10. During the course of audit, the new auditor found a credit item of Rs. 5 lakhs. On enquiry, the company explained him that it is, a very old credit balance. The creditor had neither approached for the payment nor he is traceable. Under the circumstances, no confirmation of the credit balance is available. [Nov. 09 – New (5 Marks)]

Answer: refer Special Circumstances Point 3, "Results of External Confirmation Procedure" Last Point.

Q. No. 3: Write short note on: External Confirmations in audit. [Nov. 09 – Old (4 Marks)]

SA 520 (Revised) "Analytical Procedures"

Meaning of Analytical Procedures	Analytical Procedures" means • evaluations of financial information • through analysis of relationships • among both financial and non-financial data. It also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.
Nature of Analytical procedures	(a) AP include the *consideration of comparisons* of the entity's financial information with • Comparable information for prior periods. • Anticipated results of the entity, such as, budgets or forecasts, or expectations of the auditor. • Similar industry information. (b) AP also include *consideration of relationships*, among: • elements of financial information, such as gross margin percentages. • financial information and relevant non-financial information, such as payroll costs to number of employees.
Auditor's Objectives	(a) To obtain relevant & reliable audit evidence when using substantive analytical procedures; & (b) To design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the F.S. are consistent with auditor's understanding of the entity.
Auditor's procedures	(a) *Determine the suitability of particular substantive analytical procedures*: Following factors requires consideration: 1. SAPs more suitable to large volumes of transactions tending to be predictable over time. 2. But suitability of AP influenced by: • Nature of assertion. • Auditor's assessment of APs effectiveness to identify material misstatement. 3. In some cases unsophisticated predictive models may be useful. 4. Different types of APs provide different levels of assurance. 5. Particular SAP may be considered suitable when ToD are performed on same assertion. (b) *Evaluate the reliability of data*: Followng factors affects the reliability: • Source of information available. • Comparability of information available. • Nature & relevance of information available. • Controls over preparation of information that are designed to ensure Completeness, accuracy & validity. (c) *Develop an expectation of recorded amounts or ratios* and evaluate whether the expectation is sufficiently precise to identify material misstatement. (d) *Determine the amount of any difference of recorded amounts from expected values* that is acceptable without further investigation.
Analytical Procedures that Assist When Forming an Overall Conclusion	The auditor shall design and perform analytical procedures *near the end of the audit* that assist the auditor when forming an *overall conclusion* as to whether the financial statements are consistent with the auditor's understanding of the entity.

Investigating Results of Analytical Procedures	If APs performed in accordance with this SA identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by: (a) Inquiring of management and obtaining appropriate audit evidence relevant to management's responses; and (b) Performing other audit procedures as necessary in the circumstances.

<u>Previous Years Questions</u>

Q. No. 1: What are the considerations to be kept in mind while performing analytical procedures on data prepared by the client. [June 09 – New (6 Marks)]

Q. No. 2: Write short note on: Purposes for which analytical procedures are used.

[June 09 – Old (5 marks)]

SA 620 (Revised) - Using the work of an Auditor's Expert

This SA deals with the auditor's responsibilities regarding the use of an individual or organisation's work in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence.

Point to remember: Auditor's responsibility is not reduced by the auditor's use of the work of an auditor's expert. He remains sole responsible for the opinion expressed.

Not Applicable

This SA does not deal with:

- Engagement team member is expert in a specialised area of accounting/auditing.
- ***Auditor uses the work of Management's Expert.***

Objectives

The objectives of the auditor is to determine:

- whether to use the work of an auditor's expert; and
- whether that work is adequate for the auditor's purposes.

Definitions

	Auditor's Expert	**Management's Expert**
Status	Individual/ organisation	Individual/ organisation
Expertise	Other than accounting/ auditing	Other than accounting/ auditing
Beneficiary	Auditor	Entity
Use of work	Obtain Sufficient appropriate Audit Evidence	Prepare Financial Statements

Matters where Auditor can use Expert work

(a) The valuation of complex financial instruments, land and buildings, plant and machinery, jewelry, works of art, antiques, intangible assets, assets acquired and liabilities assumed in business combinations and assets that may have been impaired.

(b) The actuarial calculation of liabilities associated with insurance contracts or employee benefit plans.

(c) The estimation of oil and gas reserves.

(d) The valuation of environmental liabilities, and site clean-up costs.

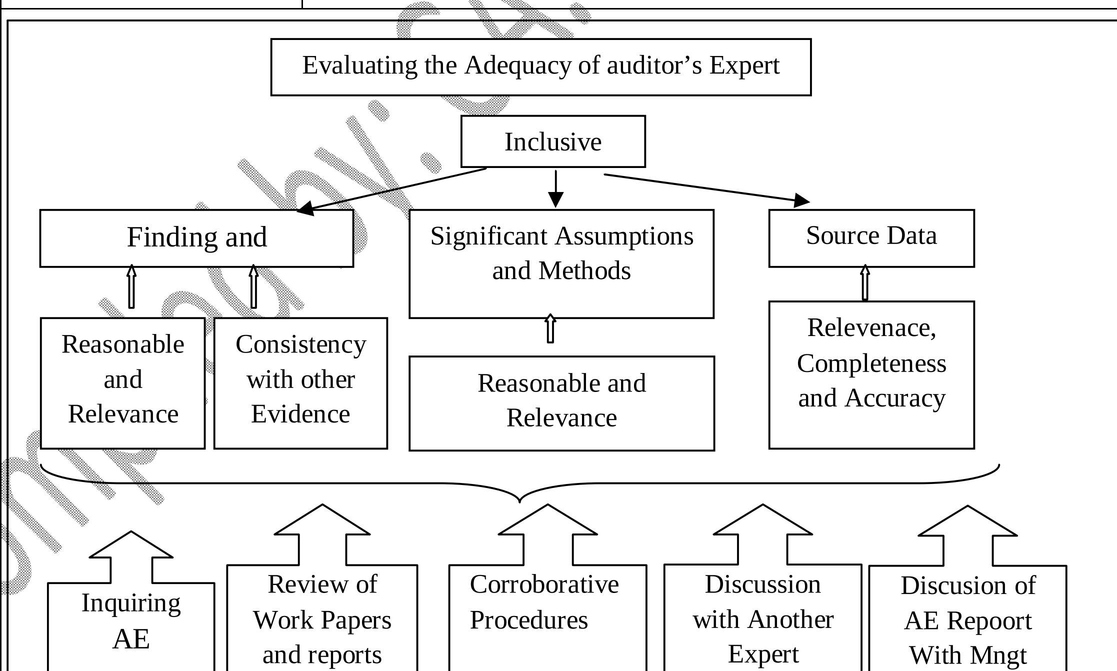
(e) The interpretation of contracts, laws and regulations.

(f) The analysis of complex or unusual tax compliance issues.

Procedures to be followed while using the work of auditor's expert

a. ***Determining the Need for an Auditor's Expert***	If expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor's expert.
b. ***Evaluation of competence, capabilities and objectivity the auditor's expert***	• *<u>Competence:</u>* Nature and Level of expertise • *<u>Capability</u>*: Ability to exercise competence in circumstances of engagement. • *<u>Objectivity</u>*: Possible effects that bias/ conflict of interest/ influence of others may have on professional/ business judgment. ***<u>Sources of info on Competence, Capabilities & Objectivity</u>***: 1. Personal experience with previous work of that expert. 2. Discussions with that expert. 3. Discussions with other auditors or others who are familiar with that expert's work. 4. Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or 5. Other forms of external recognition. 6. Published papers or books written by that expert. 7. The auditor's firm's quality control policies and procedures

	c. ***Obtaining an understanding of the field of expertise of the Auditor's Expert***	To enable the auditor to: 1. Determine the nature, scope and objectives of that expert' s work for the auditor's purposes. 2. Evaluate the adequacy of that work for the auditor's purposes.
	d. ***Agreement with auditor's Expert***	In writing, on the following matters: 1. Nature, scope & objectives of Auditor's Expert work (may include relevant technical standards or other professional and industry requirements). 2. Respective roles & responsibilities of auditors & Auditor Expert. 3. Nature, timing & extent of communication, including form of report. 4. Need for Auditor Expert to observe confidentiality requirements under ethical requirements or Law and regulation. Note: Agreement is often in the form of an engagement letter.
	e. ***Evaluating the adequacy of Auditor's Expert Work***	w.r.t. ➢ *<u>Findings and Conclusion</u>*: Relevance, reasonableness and consistency with other audit Evidence. ➢ *<u>Significant Assumptions and Methods used</u>*: Relevance and reasonableness in the circumstance. ➢ *<u>Source data used</u>*: Relevance, completeness, and accuracy.



	f. Auditor's Expert work not adequate for audit purposes	1. Agree with Auditor's expert on nature & extent of further work to be done by Auditor expert. 2. Perform further audit procedures appropriate in circumstances. ➢ Including engagement of another expert. 3. If above cannot resolve inadequacy, ***<u>MODIFIED</u>*** opinion may be required.

Nature, Timing and Extent of Audit Procedures	While determining the nature, timing and extent of the procedures to be performed w.r.t. the requirements of this SA, the auditor shall consider 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.	
Reference to Auditor's Expert in Auditor's Report	*Unmodified Audit Report*	No reference unless required by Law and Regulation.
	Modified Audit Report	Refer to make modification more clear.
	Note: In any case, audit report to clarify that reference does not reduce auditor's responsibility.	

Previous Years Questions

Nov. 10 – New Syllabus

Q. No. 1: While doing audit, Ram, the Auditor requires reports from experts for the purpose of audit evidence. What types of reports/opinions he can obtain and to what extent he can rely upon the same? [4 Marks]

Answer: refer the paragraph of "Matters where auditor can use expert work".

Nov. 10 – Old Syllabus

Q. No. 2: For determining the liability for Gratuity, Actuary's report is produced to the auditor. On examination auditor notices a serious wrong assumption in the report. Auditor challenges the Actuary's Report- Comment. [4 Marks]

Answer: The answer of this question prior to issue of SA 620 (Revised) was based on earlier SA 620. But as this case is particularly on use of Management Expert's and not a case of use of Auditor's Expert, hence, now the answer of this questions should be based on SA 500 (Revised) – Audit Evidence, which contains the provisions relating with use of management's Expert and not on the basis of SA 620 (Revised).

May 10 – Old Syllabus

Q. No. 3: What are the procedures to be followed by a statutory auditor for verifying the provisions for accrued liability for retirement benefits which is based on a certificate of a reputed actuary. [8 Marks]

Answer: Refer the paragraph "Procedures to be followed while using the work of an auditor's Expert".

June 09 – New Syllabus

Q. No. 4: Comment on the following: Z Ltd. had appointed an outside expert to assess accrued gratuity liability of the company. Based on the said report, the company provides Rs. 80 lakhs as gratuity in the financial statements. [4 Marks]

Answer: The answer of this question prior to issue of SA 620 (Revised)was based on earlier SA 620. But as this case is particularly on use of Management Expert's and not a case of use of Auditor's Expert, hence, now the answer of this questions should be based on SA 500 (Revised) – Audit Evidence, which contains the provisions relating with use of management's Expert and not on the basis of SA 620 (Revised).

June 09 – Old Syllabus

Q. No. 5: State your views on reference to an expert in the Auditor's report. . [4 Marks]

***Answer*: Refer the paragraph "Reference to Auditor's Expert in the auditor's Report".**

SA 700 (Revised) "Forming an Opinion & Reporting on F.S."

<table>
<tr><td rowspan="1">Scope of This SA</td><td colspan="2">This SA deals with the following:
• Auditor's responsibility to form an opinion on the F.S.
• Form & content of auditor's report issued as a result of an audit of F.S.
• Promotes consistency in audit reports.

<u>Point to remember</u>
➢ Modified opinion, Emphasis of Matter Paragraph, Other Matter Paragraph dealt with by SA 705 & 706.
➢ SA 700 is in the context of general purpose financial statements. Financial Statements under special purpose framework are dealt by SA 800 & SA 805.</td></tr>
<tr><td>Auditor's Objective</td><td colspan="2">➢ Form an opinion on F.S. based on evaluation of conclusions drawn from audit evidence.
AND
➢ Express clearly that opinion through a written report that also describes the basis for opinion.</td></tr>
<tr><td rowspan="3">Meaning of General Purpose Framework</td><td colspan="2">A FRF designed to meet common financial information needs of a wide range of users.</td></tr>
<tr><td>Fair Presentation Framework</td><td>(a) Refers to FRF that requires compliance with requirements of the framework.
(b) Acknowledges that the following may be necessary for fair presentation of FS:
• Mngt. may need to provide disclosures beyond those specifically required by FRF.
• Mngt. to depart (in extremely rare situations) from a requirement of framework.
Ex.: FS of a company Prepared under Companies Act, 1956.</td></tr>
<tr><td>Compliance Framework</td><td>(a) Refers to FRF that requires compliance with requirements of the framework
(b) but does not contain the acknowledgement as in Fair Presentation Framework.</td></tr>
<tr><td>Forming An Opinion On The F.S.</td><td colspan="2">SA 700 requires that auditor shall form an opinion on whether the F.S. are prepared in all material respects in accordance with the applicable FRF.
To form this opinion, auditor needs to conclude as to whether he has obtained <u>reasonable assurance</u> that FS as a whole are free of material misstatements, whether due to fraud or error.
The conclusion shall take into account:
(a) The auditor's conclusion, in accordance with SA 330, whether sufficient appropriate audit evidence has been obtained;
(b) The auditor's conclusion, in accordance with SA 450, whether uncorrected misstatements are material, individually or in aggregate; and
(c) The evaluations mentioned below:
1. Whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable FRF. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.</td></tr>
</table>

<table>
<tr><td></td><td colspan="2">2. Whether, in view of the requirements of the applicable FRF:
• The F.S. adequately disclose the significant accounting policies selected and applied;
• The accounting policies selected and applied are consistent with the applicable FRF and are appropriate;
• The accounting estimates made by management are reasonable;
• The information presented in the F.S. is relevant, reliable, comparable and understandable;
• The F.S. provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the F.S., and
• The terminology used in the F.S., including the title of each F.S., is appropriate.
3. When the F.S. are prepared in accordance with a fair presentation framework, auditor is required to evaluate whether the F.S. achieve fair presentation by considering the following:
• The overall presentation, structure and content of the F.S.; and
• Whether the F.S., including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.
4. Whether the F.S. adequately refer to or describe the applicable FRF.</td></tr>
<tr><td>Form of Opinion</td><td colspan="2">(a) The auditor shall express an <u>unmodified opinion</u> when the auditor concludes that the F.S. are prepared, in all material respects, in accordance with the applicable FRF.
(b) The auditor shall <u>modify the opinion</u> in the auditor's report in accordance with SA 705 if the auditor:
• concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
• is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.</td></tr>
<tr><td>Auditor's Report</td><td colspan="2">It shall be in writing (Hard Copy Format using Electronic Medium). This standard covers three cases:
(a) Auditor's Report for audits conducted in accordance with SAs.
(b) Auditor's Report Prescribed by Law or Regulation
(c) AR for Audits Conducted as per SAs & ISAs</td></tr>
<tr><td rowspan="3">Auditor's Report for audits conducted in accordance with SAs</td><td colspan="2">It covers the following elements</td></tr>
<tr><td>Title
(Independent Auditor's report)</td><td>AR to have a title clearly stating that it is a report of an independent auditor:
• Affirms that auditor has met all ethical requirements w.r.t. independence.
• Distinguishes AR from reports issued by others.</td></tr>
<tr><td>Addressee
(To The Shareholders of the Company)</td><td>Auditor's Report to be addressed as required by circumstances of the engagement:
• Applicable Law & Regulation may specify "addressee".
• AR normally addressed to those for whom AR is prepared – shareholders/ TCWG.</td></tr>
</table>

	Introductory Para	• Identify the entity whose FS have been audited. • State that Financial Statements have been audited. • Identify title of each statement that comprises Financial Statements. • Refer to summary of significant accounting policies & other explanatory information. • Specify date of period covered by each Financial Statement.
	Mngt. Responsibility for the Financial statements. ***<u>Heading</u>: "Mngt (other appropriate term) Responsibility for FS".***	• Describe responsibility of Mgt & others responsible for preparation of FS in the manner in which responsibility is described in Terms of Engagement. • The description shall include an explanation that mngt. is responsible for the preparation of F.S. in accordance with applicable FRF. • Responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. • Where FS are prepared in accordance with a fair presentation framework, the explanation of mgt responsibility for FS in the auditor's report shall refer to "the preparation and fair presentation of these FS" or "the preparation of FS that give a true and fair view," as appropriate in the circumstances.

	Auditor's Responsibility Para
	Heading: Auditor's Responsibility"
		It shall state the following:
		(a) Auditor's responsibility to express an opinion on F.S. based on audit evidence.
		(b) Audit was conducted in accordance with SAs, issued by ICAI.
		(c) Requirement of SAs w.r.t.
		  • Compliance with ethical requirements.
		  • Planning & performing audit to obtain reasonable assurance whether FS are free of material misstatements.
		Responsibility Para Must also describe an audit by stating the following:
		(a) Audit Involves performing procedures to obtain audit evidence.
		(b) Selection of procedures depends upon auditor's judgment.
		(c) Audit Includes evaluation of:
		  • Appropriateness of accounting policies used;
		  • Reasonableness of mngt's accounting estimates; and
		  • Overall presentation of F.S.
		(d) Auditor believing that audit evidence is sufficient & appropriate to provide basis for auditor's opinion.

	Auditor's opinion
	Heading: "Auditor's Opinion"
		Unmodified opinion expressed as:
		(a) In case of Fair presentation framework:
		  ➢ FS present fairly in all material respects in accordance with {Applicable FRF}.
		OR
		  ➢ FS give a true & fair view of in accordance with {Applicable FRF}.
		(b) In case of Compliance Framework:
		  ➢ FS are prepared in all material respects in accordance with [applicable FRF].

	Other reporting Responsibilities Sub-heading: "Report on Other Legal & Regulatory Requirements"	➢ If audit report contains a separate section on other reporting responsibilities, then introductory para, mgt responsibility para and auditor's responsibility para to be under ***<u>Sub-heading "Report on the FS"</u>***. ➢ "Report on Other Legal & Regulatory Requirements" para follows "Report on the FS" para.
	Signature of the auditor	➢ Audit report to be signed in auditor's personal name. ➢ Where firm appointed as auditor, report signed in personal name & in name of audit firm. ➢ Also mention membership number of ICAI. ➢ Include, wherever applicable, the registration number of the firm, allotted by ICAI.
	Date of the Auditor's Report	Not earlier than date on which auditor has obtained Sufficient Appropriate Audit Evidence on which to base auditor's opinion.
	Place of Signature	Ordinarily the city where audit report is signed.
Auditor's Report Prescribed by Law or Regulation	Auditor's Report refers to Standard on Auditing only if Auditor's Report at minimum includes All Elements as described by this Standard.	
AR for Audits Conducted as per SAs & ISAs	Refer to SAs & ISAs only if, no conflict between requirements of SAs & ISAs, that would lead to the auditor: • To form a Different opinion; or • Not to include an EOM paragraph, that is required by ISAs.	
Supplementary Information Presented With F.S.	If supplementary information is presented with the audited F.S., but not required by FRF, the auditor shall: • Evaluate whether Supplementary Information is clearly differentiated from audited F.S. • If not, ask mngt. to change presentation of unaudited Supplementary Information. • If mngt refuses, explain in Auditor's Report that Supplementary Information is unaudited. If such Supplementary Information is nevertheless integral part of FS due to its nature, auditor is required to cover, in his audit opinion, how it is presented	

Illustrative Format of Auditor's Report with unmodified Opinion on F.S. of a company prepared under Companies Act, 1956 (i.e. Fair Presentation Framework) requiring reporting on other matters under Companies Act

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. 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 those 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.

Report on Other Legal and Regulatory Requirements

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 those books [and proper returns adequate for the purposes of our audit have been received from branches not visited by us]29;
    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]30;
    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

Illustrative Format of Auditor's Report with unmodified Opinion on Consolidated F.S. of a Parent Company prepared under GAAPs as required for compliance with SEBI regulatory requirement (i.e. Fair Presentation Framework) does not require either EOM or other matter Paragraph

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of ABC Company Limited Same as per earlier Format

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

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Company in accordance with accounting principles generally accepted in India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and presentation of the consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

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

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

Illustrative Format of Auditor's Report with unmodified Opinion on F.S. of an entity prepared under XYZ law of India under a Compliance Framework

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying financial statements of ABC and Associates, which comprise the Balance Sheet as at March 31, 20XX, and the Profit and Loss Account 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 in accordance with XYZ Law of India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the financial statements that 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those 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 of ABC and Associates for the year ended March 31, 20XX are prepared, in all material respects, in accordance with XYZ Law of India.

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

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

Scope of SA 705

This standard deals with the auditor's responsibilities

- to issue an appropriate report in
- circumstances when in forming the opinion in accordance with SA 700 (Revised),
- the auditor concludes that modification to the auditor's opinion is necessary.

Appropriateness of Report with Modified Opinion

depends upon:

(a) Nature of Matter giving rise to the modification; and

(b) Auditor's Judgement about the pervasiveness of the effects or possible effects of the matter on the F.S.

Circumstances When a Modification to the Auditor's Opinion Is Required

(a) The auditor concludes that, based on the audit evidence obtained, the *F.S. as a whole are not free from material misstatement*, may be due to following reasons:

- Inappropriate method of selection of Accounting Policies;
- Accounting policies are not consistent with applicable FRF;
- Disclosures as required by FRF are not given.

(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, may be due to following reasons:

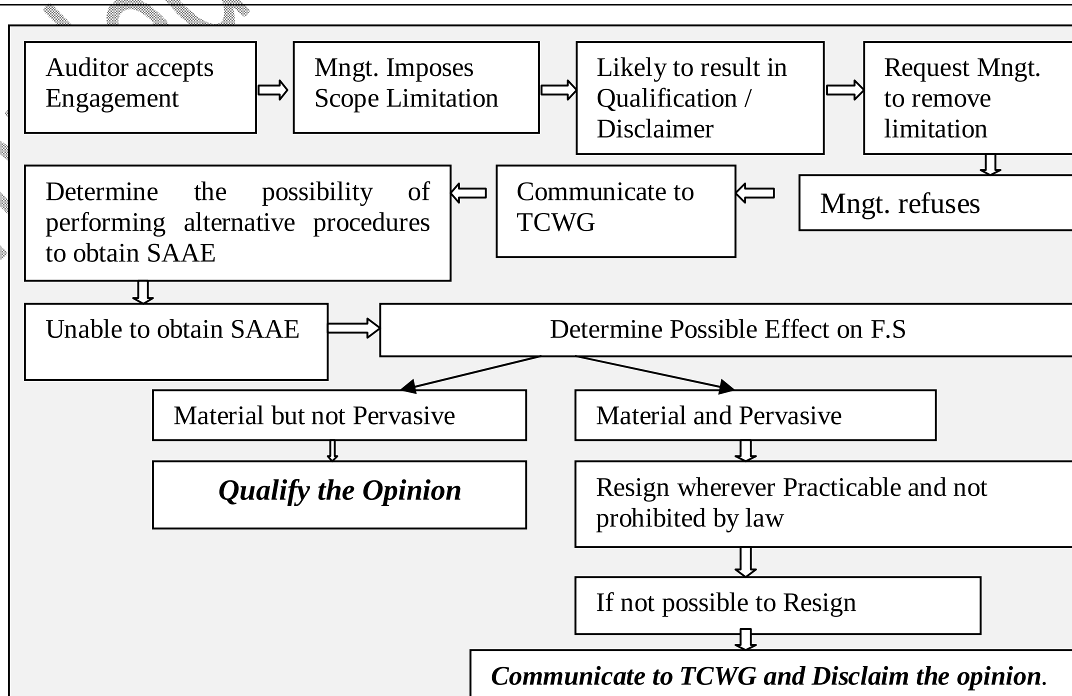
- Limitations imposed by management
- Circumstances beyond entity control (For Ex.: Accounting records destroyed by fire)
- Circumstances related to Nature and Timing of auditor's work.

Determining the Type of Modification to the Auditor's Opinion

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 SAAE	***Qualified opinion***	***Disclaimer of opinion***

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.

Limitation after the Auditor Has Accepted the Engagement:



<table>
<tr><td>Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion</td><td colspan="3">When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the F.S. as a whole, the auditor’s report shall not also include an unmodified opinion with respect to the same FRF on a single F.S. or one or more specific elements, accounts or items of a F.S., as it would contradict the auditor’s adverse opinion or disclaimer of opinion on the F.S. as a whole.
<u>Examples of reporting circumstances that would not contradict the auditor’s adverse opinion or disclaimer of opinion</u>:
✓ The expression of an unmodified opinion on F.S. prepared under a given FRF and, within the same report, the expression of an adverse opinion on the same financial statements under a different FRF.
✓ The expression of a disclaimer of opinion regarding the results of operations, and cash flows, where relevant, and an unmodified opinion regarding the financial position. In this case, the auditor has not expressed a disclaimer of opinion on the financial statements as a whole.</td></tr>
<tr><td rowspan="7">FORM AND CONTENT OF THE AUDITOR’S REPORT WHEN THE OPINION IS MODIFIED</td><td colspan="2">Basis of Modification Para</td><td>• In addition to other elements as per SA 700(R).
• Amend Auditor’s responsibility statement.
• <u>Description of matter giving rise to modification</u>.
• Placed immediately before Opinion Para.
• Use heading “Basis for ………. Opinion”.</td></tr>
<tr><td colspan="3">Descriptions Required in Basis of Modification para: depends upon cause of modification</td></tr>
<tr><td colspan="2">Cause of Modification</td><td>Description in Basis of Modification Para</td></tr>
<tr><td colspan="2">a. Material misstatement of F.S. <u>relating to Specific amounts in FS.</u></td><td>• Description & quantification of financial effects of misstatements unless impracticable.
• If it is impracticable to quantify the financial effects, state so.</td></tr>
<tr><td colspan="2">b. Material misstatement of F.S. relating to <u>Narrative disclosures</u></td><td>Explanation of how disclosures are misstated.</td></tr>
<tr><td colspan="2">c. Material misstatement of F.S. relating to <u>Non-disclosure of information required to be disclosed</u></td><td>• Nature of omitted information.
• Include omitted disclosures if:
✓ Not prohibited by Law or Regulation;
✓ It is practicable to do so; and
✓ SAAE has been obtained about omitted information.</td></tr>
<tr><td colspan="2">d. <u>Inability to obtain SAAE</u></td><td>• the reasons for that inability</td></tr>
<tr><td rowspan="2">ILLUSTRATIVE WORDINGS IN OPINION PARA</td><td><u>Qualified Opinion</u></td><td colspan="2">Except for the effects of the matter(s) described in the Basis for Qualified Opinion paragraph:
➢ The FS present fairly, in all material respects (or give a true and fair view) in accordance with the applicable FRF when reporting in accordance with a fair presentation framework;
OR
➢ The FS have been prepared, in all material respects, in accordance with the applicable FRF when reporting in accordance with a compliance framework.</td></tr>
<tr><td><u>Adverse Opinion</u></td><td colspan="2">In the auditor’s opinion, because of the significance of the matter(s) described in the Basis of Adverse Opinion paragraph:
➢ The FS do not present fairly (or give a true and fair view) in accordance with the applicable FRF when reporting in accordance with a fair presentation framework;
or
➢ The FS have not been prepared, in all material respects, in accordance with the applicable FRF when reporting in accordance with a compliance framework.</td></tr>
</table>

	Disclaimer of Opinion	➢ 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 to provide a basis for an audit opinion; and, accordingly, ➢ the auditor does not express an opinion on the financial statements.
Description of Auditor's Responsibility	*Qualified/ Adverse Opinion*	• Amend description. • State that auditor believes that audit evidence obtained is sufficient & appropriate to provide basis for auditor's modified opinion.
	Disclaimer of Opinion	• Amend the introductory para/description of auditor's resp and scope of audit. • "Our responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with Standards on Auditing issued by the Institute of Chartered Accountants of India. Because of the matter(s) described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion".

Illustrative Format of an Auditor's Report with Qualified Opinion on basis of Misstatement – Fair Presentation Framework

"Inventories are misstated. The Misstatement is deemed to be material but not pervasive"

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Financial Statements (Refer SA 700 Revised)

Management's Responsibility for the Financial Statements (Refer SA 700 Revised)

Auditor's Responsibility (Refer SA 700 Revised)

Basis for Qualified Opinion

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.

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 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:

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

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

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

Report on Other Legal and Regulatory Requirements

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 those books [and proper returns adequate for the purposes of our audit have been received from branches not visited by us];
   3. 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];
   c. Except for the effects of the matter described in the Basis for Qualified Opinion paragraph, in our opinion, the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;
   d. 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 Act.
   e. 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

Illustrative Format of an Auditor's Report with <u>Qualified Opinion (auditor unable to collect audit evidence)</u> – Fair Presentation Framework

<u>"The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign affiliate. The possible effect of the ability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the F.S."</u>

Basis for Qualified Opinion

ABC Company Limited's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at Rs. XXX in the Balance Sheet as at March 31, 20XX, and ABC's share of XYZ Company's net income of Rs. XXX is included in ABC Company Limited's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC Company Limited's investment in XYZ Company as at March 31, 20XX and ABC Company Limited's share of XYZ Company's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ Company. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Illustrative Format of Auditor's Report with ADVERSE Opinion on Consolidated F.S. of a Parent Company prepared under GAAPs as required for compliance with SEBI regulatory requirement (i.e. Fair Presentation Framework)

"The F.S. are materially misstated due to non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the F.S. The effects of the misstatement on the F.S. have not been determined because iw was not practicable to do so"

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of ABC Company Limited

Management's Responsibility for the Consolidated Financial Statements

Auditor's Responsibility

Basis for Adverse Opinion

As explained in Note X, the Company has not consolidated the financial statements of subsidiary XYZ Company it acquired during 20XX because it has not yet been able to ascertain the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This acquisition is therefore accounted for as an investment. Under the accounting principles generally accepted in India, the subsidiary should have been consolidated because it is controlled by the Company. Had XYZ been consolidated, many elements in the accompanying financial statements would have been materially affected. The effects on the financial statements of the failure to consolidate have not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the consolidated financial statements do not give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the consolidated Balance Sheet, of the state of affairs of the Company as at March 31, 0XX;

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

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

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

Illustrative Format of an Auditor's Report over Consolidated F.S. with Disclaimer of Opinion– Fair Presentation Framework

"Auditor unable to collect audit evidence about the financial information of a Joint Venture investment that represents over 90% of company's net assets"

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Financial Statements

Management's Responsibility for the Financial Statements

Auditor's Responsibility

Basis for Disclaimer of Opinion

The Company's investment in its joint venture XYZ Company is carried at Rs. XXX in the Company's Balance Sheet, which represents over 90% of the Company's net assets as at March 31, 20XX. We were not allowed access to the management and the auditors of XYZ Company. As a result, we were unable to determine whether any adjustments were necessary in respect of the Company's proportional share of XYZ Company's assets that it controls jointly, its proportional share of XYZ Company's liabilities for which it is jointly responsible, its proportional share of XYZ Company's income and expenses for the year, and the elements making up the Cash Flow Statement.

Disclaimer of Opinion

Because of the significance of the matter 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.

Report on Other Legal and Regulatory Requirements

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 Companies Act, 1956, we report that:
    a. As described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
    b. Due to the possible effects of the matter described in the Basis for Disclaimer of Opinion paragraph, we are unable to state whether proper books of account as required by law have been kept by the Company so far as appears from our examination of those 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. Due to the possible effects of the matter described in the Basis for Disclaimer of Opinion paragraph, we are unable to state whether the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement comply
    e. with the accounting standards referred to in sub-section (3C) of section 211 of the Act;
    f. 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 Act.
    g. 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

SA 706 "Emphasis of Matter Paragraphs and Other Paragraphs in the Independent Auditor's Report"

<table>
<tr><td rowspan="1">Scope of this SA</td><td colspan="2">This Standard deals with additional communication in the Auditor's Report When auditor considers necessary to draw users' attention to:
➢ Matter/s presented or disclosed in FS are of such importance that they are fundamental to users' understanding of FS.
OR
➢ Matter/s other than those presented/disclosed in FS that are relevant to users' understanding of audit/ auditor's responsibilities/AR.</td></tr>
<tr><td rowspan="2">Meaning of EOM and Other Paragraph</td><td>Emphasis of Matter Paragraph (EMP)</td><td>➢ Para included in AR,
➢ Refers to a matter appropriately presented/ disclosed in FS that,
➢ In the auditor's judgment is of such importance that,
➢ It is fundamental to users' understanding of FS.</td></tr>
<tr><td>Other Matter Paragraph (OMP)</td><td>➢ Para included in AR.
➢ Refers to matter other than those presented/ disclosed in FS.
➢ In auditor's judgment.
➢ Is relevant to users' understanding of audit, auditor's responsibilities or auditor's report.</td></tr>
<tr><td rowspan="2">Requirements w.r.t. EOM Paragraph</td><td colspan="2">1. Auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the F.S.
2. EOM paragraph shall refer only to information presented or disclosed in the F.S.
3. Widespread use of EOM paragraph diminishes the effectiveness of the auditor's communication of such matters, by implying that matter has not been appropriately presented or disclosed in F.S.
4. EOM paragraph is not a substitute for
• need for expression of qualified opinion, adverse opinion or Disclaimer of opinion.
• disclosures to be made by mgt in FS as required by applicable FRF.
5. Placement: immediately after Opinion para.
6. Use heading "Emphasis of Matter" or other appropriate heading.
7. Emphasis of Matter paragraph must include a clear reference to:
• Matter being emphasised.
• Where relevant, disclosure that fully describe the matter can be found in FS.
• Indicate that audit opinion is not modified in respect of matter emphasised.</td></tr>
<tr><td>Circumstances when EOM Para can be included in Auditor's report</td><td>• An uncertainty relating to the future outcome of an exceptional litigation or regulatory action.
• Early application (where permitted) of a new accounting standard that has a pervasive effect on the financial statements in advance of its effective date.
• A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.</td></tr>
<tr><td>Requirements w.r.t. Other Matter Paragraphs In Auditor's Report</td><td colspan="2">1. If auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the F.S. that in the auditor's judgement is relevant to user's understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall do so in a paragraph in the auditor's report with the heading "Other Matter", or other appropriate heading provided:
➢ Not prohibited by Law and Regulation</td></tr>
</table>

	2. Placement: immediately after Opinion paragraph & any Emphasis of Matter Paragraph; or elsewhere if content of other matter paragraph is relevant to Other Reporting Responsibilities section.
Communication to TCWG	If the auditor expects to include an EOM or an Other Matter paragraph in the auditor's report, the auditor shall communicate with TCWG regarding this expectation and the proposed wording of this paragraph.

Illustrative Format of an Auditor's Report with <u>Qualified Opinion</u> including an <u>EOM paragraph</u>- Fair Presentation Framework

"Inventories are misstated. The Misstatement is deemed to be material but not pervasive"

"There is an uncertainty relating to a pending exceptional litigation matter"

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Financial Statements (Refer SA 700 Revised)

Management's Responsibility for the Financial Statements (Refer SA 700 Revised)

Auditor's Responsibility (Refer SA 700 Revised)

Basis for Qualified Opinion (Refer SA 705)

Opinion (Refer SA 705)

Emphasis of Matter

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.

Report on Other Legal and Regulatory Requirements (Refer SA 705)

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

Illustrative Format of an Auditor's Report on Consolidated F.S. including an Other Matter Paragraph based on Fair Presentation Framework

"<u>Other Matter Paragraph – Auditor's responsibility in respect of subsidiaries not audited by him but which form part of the consolidated financial statements under report</u>"

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of ABC Company Limited (Refer SA 700 Revised)

Management's Responsibility for the Consolidated Financial Statements (Refer SA 700 Revised)

Auditor's Responsibility (Refer SA 700 Revised)

Opinion (Refer SA 700 Revised)

Other Matter

We did not audit the financial statements of certain subsidiaries, whose financial statements reflect total assets (net) of Rs. XXXX as at March 31, 20XX, total revenues of Rs. XXXX and net cash outflows amounting to Rs. XXXX 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.

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

"SA 710 (REVISED) "COMPARATIVE INFORMATION – CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL INFORMATION"

Scope of SA 710 (R)	(a) Auditor's responsibilities relating to comparative information in audit of F.S. (b) When prior period FS are audited by another auditor/unaudited: Also apply Raised SA 510 to audit of opening balances. (c) Nature of Comparative Info: Depends upon applicable FRF. Two approaches: • Corresponding figures. • Comparative FS. (d) Approach often specified by L&R: May also be specified by terms of engagement.	
Definition of Imp. Terms	Comparative Information	• The amounts and disclosures included in the F.S. • in respect of one or more prior periods • in accordance with the applicable FRF.
	Corresponding Figures	• Comparative information where amounts and other disclosures for the prior period, • are included as an ***<u>integral part of current period F.S.,</u>*** and • are intended to be read only in relation to the amounts and other disclosures relating to the current period.
	Comparative F.S.	• Comparative information where amounts and other disclosures for the prior period, • are included for ***<u>comparison with the F.S. of the current period</u>*** • but, if audited, are referred to in the auditor's opinion.
Audit Reporting difference between two approaches	• *<u>Corresponding Figures</u>*: Auditor's Opinion on F.S. refers to ***<u>current period</u>*** only. • *<u>Comparative F.S.</u>*: Auditor's Opinion refers to ***<u>each period</u>*** for which F.S. are presented.	
Objectives of Auditor	(a) To obtain SAAE about whether the comparative information included in the F.S. has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable FRF; and (b) To report in accordance with the auditor's reporting responsibilities.	
Audit Procedures	Determine	(c) Whether F.S. include Comparative information required by FRF, & (d) Whether such information is classified appropriately.
	Evaluate	(a) Whether the comparative information agrees with the amounts and other disclosures presented in the prior period; and (b) Whether the accounting policies reflected in the comparative information are consistent with those applied in the current period. (c) Whether, changes in accounting policies, if any, have been properly accounted for and adequately presented and disclosed.
	Doubt over existence of Possible Material Misstatement	Perform additional audit procedures to obtain sufficient appropriate audit evidence to determine existence of material misstatement. *<u>Note: SA 560 (revised) - :Subsequent Event" also applies if auditor had audited the prior period F.S.</u>*
	Obtain WR	From mngt. to re-affirm that the WR it previously made with respect to the prior period remain appropriate.

<table>
<tr><td rowspan="3">Audit Reporting – Corresponding Figures</td><td colspan="2">Audit opinion not to refer to corresponding figures, EXCEPT:
(1) <u>Auditor's report in prior period FS was modified and the subject matter is still unresolved</u>: Modify current audit report also. Refer Illustration 1
(2) <u>Auditor obtains audit evidence w.r.t. existence of material misstatement in prior period F.S. on which unmodified opinion was issued</u>: Express qualified / adverse opinion on current F.S. w.r.t. Corresponding figures if misstatement has not been dealt as required by applicable FRF.</td></tr>
<tr><td><u>Prior Period FS Audited by Another Auditor</u></td><td>If Law & Regulation permits reference to predecessor auditor's report on corresponding Figs, current audit report to include Other Matter para:
• F.S. of prior period were audited by another auditor.
• Type of opinion expressed by predecessor auditor (reasons for modification, if any).
• Date of that report. Refer Illustration 2</td></tr>
<tr><td><u>Prior Period FS are Unaudited</u></td><td>Include Other Matters para:
• That corresponding figures are unaudited.
• But, this does not relieve the auditor from need to obtain SAAE that opening balances do not contain misstatements that can potentially affect current FS.</td></tr>
<tr><td rowspan="3">Audit Reporting – Comparative F.S.</td><td colspan="2">1. Audit opinion to refer to each period for which F.S. are presented and on which opinion is expressed.
2. If opinion on prior period FS expressed in current period differs from opinion expressed in the relevant prior period, give substantive reason for difference in Other Matter para. Refer Illustration 3</td></tr>
<tr><td><u>Prior Period FS Audited by Another Auditor</u></td><td>Audit report to also contain Other Matter para, stating that:
• FS of prior period were audited by predecessor auditor.
• Type of opinion expressed by him (reasons for modifications, if any).
• Date of that report.
If material misstatement exists in prior period FS (not reflected in previous audit report):
• Communicate misstatement to mngt/ TCWG.
• Request that predecessor auditor be informed.</td></tr>
<tr><td><u>Prior Period FS are Unaudited</u></td><td>Include Other Matters para:
• That corresponding FS are unaudited.
• But, this does not relieve the auditor from need to obtain SAAE that opening balances do not contain misstatements that can potentially affect current FS</td></tr>
</table>

Illustration 1: Reporting in case Corresponding Figures when Auditor's Report on Prior Period as previously issued includes a qualified opinion and matter still unresolved.

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, 20X1, 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 and presentation of these financial statements that give a true and fair view of the state of affairs, results of operations 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 fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility **Same as in case of SA 700 (Revised)**

Basis for Qualified Opinion

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements which constitutes a departure from the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). This is the result of a decision taken by management at the start of the preceding financial year and caused us to qualify our audit opinion on the financial statements relating to that year. Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by Rs.XXX in 20X1 and Rs.XXX in 20X0, property, plant and equipment should be reduced by accumulated depreciation of Rs.XXX in 20X1 and Rs.XXX in 20X0, and the accumulated loss should be increased by Rs.XXX in 20X1 and Rs.XXX in 20X0.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the state of affairs of the Company as of March 31, 20X1, and of its results of operations and its cash flows for the year then ended in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act").

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

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

Illustration 2: Reporting in case Corresponding Figures when Prior Period F.S. were audited by predecessor auditor and it is permitted to auditor by law and regulation to refer the predecessor auditor report

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, 20X1, 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 and presentation of these financial statements that give a true and fair view of the state of affairs, results of operations 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 fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility **Same as in case of SA 700 (Revised)**

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as of March 31, 20X1, and of its results of operations and its cash flows for the year then ended in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act").

Other Matters

The financial statements of the Company for the year ended March 31, 20X1, were audited by another auditor who expressed an unmodified opinion on those statements on June 30, 20X1.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

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

Illustration 3: Reporting in case Comparative F.S. Prior Period F.S. when Auditor's Report on Prior Period as previously issued includes a qualified opinion and matter still unresolved.

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 sheets as at March 31, 20X1 and 20X0, and the statements of profit & loss, and cash flow statements for the years 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 and presentation of these financial statements that give a true and fair view of the state of affairs, results of operations 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 fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility **Same as in case of SA 700 (Revised)**

Basis for Qualified Opinion

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements which constitutes a departure from the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by Rs.XXX in 20X1 and Rs.XXX in 20X0, property, plant and equipment should be reduced by accumulated depreciation of Rs.XXX in 20X1 and Rs.XXX in 20X0, and the accumulated loss should be increased by Rs.XXX in 20X1 and Rs.XXX in 20X0.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the state of affairs of the Company as of March 31, 20X1 and 20X0 and of its results of operations and its cash flows for the years then ended in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act").

Other Matters

The financial statements of the Company for the year ended March 31, 20X1, were audited by another auditor who expressed an unmodified opinion on those statements on June 30, 20X1.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

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

SA 800 "Special Considerations – Audit of F.S. Prepared in accordance with Special Purpose Frameworks"

Special Purpose Framework	✓ FRF designed to meet financial info needs of specific users. ✓ It may be a Fair presentation framework or a compliance framework (refer SA 700). **_Examples of special purpose frameworks are_:** • **The cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors;** • **The financial reporting provisions established by a regulator to meet the requirements of that regulator; or** • **The financial reporting provisions of a contract, such as a loan agreement/project grant.**
Special Purpose FS	• FS prepared in accordance with special purpose framework.
Scope of SA 800	• Deals with special considerations in the application of SAs to audit of FS prepared in accordance with a SPF. • Written in the context of **_complete set of FS_** prepared in accordance with a SPF. • Does not override the requirements of the other SAs. • May **_not deal with all special considerations_** relevant in the circumstances of the engagement.
Auditor's Objective	Address appropriately the special considerations relevant to: • Engagement acceptance. • Engagement planning & performance. • Forming opinion & reporting on F.S.
Engagement Acceptance - Considerations	Before accepting the engagement, auditor is required to determine the acceptability of FRF applied in the preparation of F.S. as per the requirements of SA 210 (Revised). For this purpose, he shall obtain understanding of: • Purpose for which FS are prepared. • Intended users. • Steps taken by mgt to determine that applicable FRF is acceptable. **_Point to Note_: Applicable FRF may encompass:** • **Financial reporting standards established by authorised or recognised organisation.** • **Some Law and Regulation may prescribe the FRF to be used by management.** • **The financial reporting provisions of a contract, or sources.** **Acceptability of the FRF is determined by considering whether the framework exhibits attributes normally exhibited by acceptable FRF.**
Planning & Performing an Audit – *Considerations*	(a) Determine whether the application of SAs require special considerations in circumstances of the engagement. (b) While determining the application of SA, auditor is required to consider the following: ➢ Requirement of SA 200 on applicability of SAs and absence of conditions requiring applicability of an SA. ➢ Requirement of SA 315 regarding understanding of selection and application of accounting principles and policies. In case where accounts are prepared on the basis of provisions of a contract, auditor is required to obtain understanding of any significant interpretations of the contract.

	***Point to Note*: TCWG may not have a responsibility of overseeing the preparation of that F.S. in SFRF; for example, when the financial information is prepared solely for management's use. In such cases, the requirements of SA 260 (Revised) may not be relevant to the audit of the SPFS, except when the auditor is also responsible for the audit of the entity's GPFS statements or, for example, has agreed with TCWG of the entity to communicate to them relevant matters identified during the audit of the SPFS.**
Forming an Opinion & Reporting Considerations	Apply requirements of SA 700 (R). The Auditor's Report on Special Purpose F.S. shall also: (a) Describe the purpose for which FS are prepared & intended users. (b) If management has a choice of FRFs in the preparation of FS: ➢ Explanation of mngt. responsibility for the FS make reference to its responsibility for determining acceptability of applicable FRF. (c) Evaluate whether FS adequately describe the FRF applied. (d) Include EOM para to alert users regarding application of special purpose FRF: ➢ FS may not be suitable for another purpose.
Restriction on Distribution or Use	Special Purpose F.S. may be used for purposes other than those for which they were intended. Alert users by: ➢ Considering it appropriate to indicate that the auditor's report is intended solely for the specific users. ➢ Depending on the Law and Regulation, restrict the distribution or use of the auditor's report. Include these other matters, and the heading in AR.

Illustration of Auditor's Report of F.S. prepared in accordance with Financial reporting provisions of a contract – Compliance Framework – Distribution and use restricted

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying financial statements of ABC Company Ltd., which comprise the balance sheet as at March 31, 20X1, 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. The financial statements have been prepared by management of ABC Company Ltd. based on the financial reporting provisions of section/ clause Z of the contract dated July 1, 20X0 between ABC Company Ltd. and DEF Company Ltd. ("the contract").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the financial reporting provisions of section/ clause Z of the contract; this includes the design, implementation and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility **Same as in case of Report under SA 700 (Revised)**

Opinion

In our opinion, the financial statements of ABC Company Ltd. for the year ended March 31, 20X1 are prepared, in all material respects, in accordance with the financial reporting provisions of section/ clause Z of the contract.

Basis of Accounting and Restriction on Distribution and Use

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.

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

Illustration of Auditor's Report of F.S. prepared in accordance with Financial reporting provisions established by a Regulator – Fair Presentation Framework – Distribution and use not restricted.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying financial statements of ABC Company Ltd., which comprise the balance sheet as at March 31, 20X1, 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. The financial statements have been prepared by management based on the financial reporting provisions of Section Y of Regulation Z.

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 state of affairs, results of operations and cash flows of the Company in accordance with the financial reporting provisions of Section Y of Regulation Z; this 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 **Same as in case of Report under SA 700 (Revised)**

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give a true and fair view of the state of affairs of ABC Company Ltd. as at March 31, 20X1, and of its results of operations and its cash flows for the year then ended in accordance with the financial reporting provisions of Section Y of Regulation Z.

Basis of Accounting

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 meet the requirements of Regulator DEF. As a result, the financial statements may not be suitable for another purpose.

Other Matter

ABC Company Ltd. has prepared a separate set of financial statements for the year ended March 31, 20X1 in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") on which we issued a separate auditor's report to the shareholders of ABC Company Ltd. dated June 30, 20X1.

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

<table>
<tr><th colspan="3">SA 805 "Special Considerations – Audits of Single F.S. and Specific Elements, Accounts or Items of a F.S."</th></tr>
<tr><td rowspan="2">Single Financial Statement / Element of A F.S.</td><td colspan="2">• The term element means an element, account or item of a F.S.
• A single financial statement (for example, a cash flow statement) or to a specific element of a financial statement (for example, cash and bank balances) includes the related notes. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information relevant to the financial statement or to the element.</td></tr>
<tr><td colspan="2"><u>Examples of Specific Elements, Accounts or Items of a Financial Statement</u>:
• 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.
• A schedule of externally managed assets and income of a private pension plan, including related notes.
• A schedule of net tangible assets, including related notes.
• A schedule of disbursements in relation to a lease property, including explanatory notes.
• A schedule of profit participation or employee bonuses, including explanatory notes.</td></tr>
<tr><td>Scope of SA 805</td><td colspan="2">(a) SAs 100 – 700 series apply to audit of FS:
To be adopted as necessary in audit of other historical financial info.
(b) SA 805 deals with special considerations in application of these SAs to:
• Audit of single financial statements, or
• Specific element/account/ item of FS (EFS).
may be prepared in accordance with General Purpose Framework or special Purpose Framework.
(c) This SA does not:
• apply to report of component auditor.
• override requirements of other SAs.
• deal with special considerations that may be relevant in circumstances of the engagement.</td></tr>
<tr><td>Auditor's Objective</td><td colspan="2">Address appropriately the special considerations relevant to:
• Engagement acceptance.
• Engagement planning & performance.
• Forming opinion & reporting on F.S.</td></tr>
<tr><td>Engagement Acceptance - Considerations</td><td>a. Application of SA</td><td>SA 200 (Revised) requires compliance with all SAs relevant to audit.
➢ This applies to audit of Single F.S. even if the auditor also audits the complete F.S.
➢ If auditor not also engaged to audit the complete FS, consider the practicability of audit of Single F.S./Specific Element in accordance with SAs.</td></tr>
<tr><td></td><td>b. Acceptability of FRF</td><td>1. Determine the acceptability of the FRF applied in the preparation of Single F.S.
2. For audit of Single F.S./specific element, determine:
➢ Whether application of FRF will result in presentation that provides adequate disclosures to enable intended users to understand information conveyed in Single FS or element; and
➢ Effect of material transactions and events on info conveyed in Single F.S. or element.</td></tr>
</table>

<table>
<tr><td></td><td>c. Form of Opinion</td><td>➢ Expected form of opinion depends upon applicable FRF & applicable L&R.
➢ SA 210 requires that agreed terms of audit engagement include the expected form of any report to be issued by auditor.
➢ Consider whether expected form of opinion is appropriate in the circumstances.
➢ The auditor's decision as to the expected form of opinion is a matter of professional judgment.</td></tr>
<tr><td>Planning and Performance Considerations</td><td colspan="2">(a) Adapt all SAs as necessary in the audit of SFS:
(b) Careful consideration of relevance of each SA is necessary.
(c) When auditing Single F.S. in conjunction with Full F.S., audit evidence obtained as part of audit of full F.S. may be useful but auditor nevertheless needs to plan & perform audit of Single F.S. to obtain Sufficient Appropriate Audit Evidence.
(d) Some items from Complete FS may be interrelated with Element of F.S., Auditor would need to perform procedures on such interrelated items.
(e) Materiality determined for a Single F.S. or for a specific element may be lower that materiality for full FS, this will affects Nature, Timing, Extent of audit procedures.</td></tr>
<tr><td rowspan="2">Forming an Opinion and Reporting Considerations</td><td colspan="2">• Apply SA 700, as necessary.
• If also engaged to report on full FS, express separate opinion on each engagement.
• If audited Single F.S. published with entity's audited full FS, presentation of Single F.S. should be clearly differentiated from full FS.
• Do not issue audit report on SFS until satisfied with the differentiation.</td></tr>
<tr><td><u>Modified Opinion/ EMP/OMP Para on Full FS</u></td><td>(a) Determine effect on Single F.S.
(b) If appropriate, modify opinion on Single F.S. / include EMP, OMP.
(c) If necessary to issue adverse / disclaimer opinion on full FS, unmodified opinion on SFS cannot be expressed. However in such circumstances, in the context of a separate audit of <u>specific element</u>, an unmodified opinion can be expressed if:
• Not prohibited by Law and Regulation;
• Audit report on specific element is not published together with audit report on full FS; and
• Specific element does not constitute a major portion of entity's full F.S.</td></tr>
</table>

Illustration of Auditor's Report of audit of Balance Sheet prepared in accordance with requirements of AS referred in Sec. 211 (3C) of Companies Act, 1956

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying balance sheet of ABC Company Ltd. as at March 31, 20X1 and a summary of significant accounting policies and other explanatory information (together "the financial statement").

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the requirements of the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"), relevant to preparing such a financial statement. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Opinion

In our opinion, the financial statement presents a true and fair view of the state of affairs of ABC Company Ltd. as at March 31, 20X1 in accordance with those requirements of the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"), relevant to preparing such a financial statement.

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

Illustration of Auditor's Report of audit of a statement of cash receipt and disbursement

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying statement of cash receipts and disbursements of ABC Company Ltd. for the year ended March 31, 20X1 and a summary of significant accounting policies and other explanatory information (together "the financial statement"). The financial statement has been prepared by management using the cash receipts and disbursements basis of accounting described in Note X.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash receipts and disbursements basis of accounting described in Note X; this includes determining that the cash receipts and disbursements basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances, and the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 Audits of Single FS & Specific Elements, Accounts or Items of a FS 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.

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

Illustration of Auditor's Report of audit of a financial statement element - the Liability for "Incurred but not reported" claims in an insurance portfolio.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying schedule of the liability for "incurred but not reported" claims of ABC Insurance Company as of March 31, 20X1 ("the schedule"). The schedule has been prepared by management based on [describe the financial reporting provisions established by the regulator].

Management's Responsibility for the Schedule

Management is responsible for the preparation of the schedule in accordance with [describe the financial reporting provisions established by the regulator]; this includes the design, implementation and maintenance of internal control relevant to the preparation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Opinion

In our opinion, the financial information in the schedule of the liability for "incurred but not reported" claims of ABC Insurance Company as of March 31, 20X1 is prepared, in all material respects, in accordance with [describe the financial reporting provisions established by the regulator].

Basis of Accounting and Restriction on Distribution

Without modifying our opinion, we draw attention to Note X to the schedule, which describes the basis of accounting. The schedule is prepared to assist ABC Insurance Company to meet the requirements of Regulator DEF. As a result, the schedule may not be suitable for another purpose. Our report is intended solely for ABC Insurance Company and Regulator DEF and should not be distributed to parties other than ABC Insurance Company or Regulator DEF.

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

SA 810 "Engagements to Report on Summary Financial Statements"

Meaning of Summary F. S.	Historical financial info that is: • Derived from FS, **BUT** • Contains less detail than FS, **WHILE STILL** • Providing a structured representation **CONSISTENT WITH** • That provided by entity's F.S.
Scope of SA 810	• Deals with auditor's responsibilities. • When undertaking engagement to report. • On summary financial statements (SFS). • Derived from FS audited in accordance with SA. • By that ***same auditor***.
Objectives of SA	Determine Appropriateness → of accepting the engagement to report on SFS ↓ Form Opinion on SFS → Based on Evaluation of Conclusions drawn from evidence obtained ↓ Express the Opinion Clearly → Through written report that also describes basis for that opinion
REQUIREMENTS AND APPLICATIONS	
Engagement Acceptance	(a) Accept the engagement only when also engaged to audit, in accordance with SAs, those F.S., from which these Summary F.S. have been derived. (b) Before accepting Engagement, auditor shall: (c) Determine whether the applied criteria are acceptable. (d) Obtain the agreement of management that acknowledges and understands its responsibilities: • For the preparation of Summary F.S. in accordance with the *applied criteria*; • To make the audited FS available to the intended users of Summary F.S. without undue difficulty; and • To include the auditor's report on Summary F.S. in any document that contains the Summary F.S. and that indicates that the auditor has reported on them. (e) Agree with the management the form of opinion to be expressed on the Summary F.S. (f) Do not accept engagement if: • Criteria are not acceptable; or • unable to obtain management agreement, Unless required by law. (g) Non compliance with SA: An engagement conducted in accordance with such law or regulation does not comply with this SA. • Accordingly, the auditor's report on SFS shall not indicate that the engagement was conducted in accordance with this SA. • Include appropriate reference to this fact in the terms of the engagement. • Determine the effect that this may have on the engagement to audit FS from which Summary F.S. are derived. *Applied criteria*: The criteria applied by Mngt. in the preparation of summary F.S.
Nature of Procedures	***EVALUATE***: (a) Whether Summary F.S. adequately: • Disclose their summarised nature; & • Identify the audited FS.

<table>
<tr><td></td><td colspan="2">(b) If Summary F.S. are not accompanied by audited FS, whether they clearly describe:
• From whom or where audited FS are available; OR
• Law & Regulation that specifies that audited F.S. need not be made available to intended users of Summary F.S. & establishes criteria for preparation of Summary F.S.
(c) Whether Summary F.S. adequately disclose the applied criteria.
(d) Whether Summary F.S. are prepared in accordance with applied criteria.
(e) Whether Summary F.S. contain necessary info & are appropriately aggregated so as not to be misleading.
(f) Whether audited F.S. are available to intended users without undue difficulty.
<u>COMPARE</u>:
• Summary F.S. with related information in audited F.S. to determine whether Summary F.S. agree with or can be re-calculated from related information in audited F.S.</td></tr>
<tr><td rowspan="2">Form of Opinion</td><td>(a) Unmodified opinion shall be expressed on Summary F.S. if:</td><td>• SFS are consistent, in all material respects, with audited FS, in accordance with applied criteria, or
• Summary F.S. are fair summary of audited FS in accordance with applied criteria.</td></tr>
<tr><td>(b) If Law & Regulation prescribe different wordings:</td><td>• Apply the procedures (Evaluation and Compare) and any further procedures necessary to be able to express the prescribed opinion; and
• Evaluate whether users of Summary F.S. might misunderstand the auditor’s opinion on Summary F.S. and, if so, whether additional explanation in the auditor’s report on Summary F.S, can mitigate possible misunderstanding.</td></tr>
<tr><td>Timing of Work & Subsequent Events</td><td colspan="2">(a) Report on Summary F.S. may be <u>dated later than date of report on audited FS</u>:
• Audit report to state that Summary F.S. and audited F.S. do not reflect the effects of events after the date of audit report.
(b) <u>Date the report on the Summary F.S. no earlier</u> than:
1. Date on which the auditor has obtained sufficient appropriate evidence on which to base the opinion, including evidence:
• Summary F.S. have been prepared; and
• Recognised authority have asserted their responsibility for Summary F.S.
2. Date of report on the audited F.S.</td></tr>
<tr><td rowspan="4">Auditor’s Report on Summary F.S.</td><td colspan="2"><u>Elements of the Auditor’s Report</u>:</td></tr>
<tr><td>1. Title</td><td>clearly indicating it as the report of an independent auditor. This distinguishes the report of the independent auditor from reports issued by others.</td></tr>
<tr><td>2. Addressee</td><td>If addressee of Summary F.S. is not the same as the addressee of the auditor’s report on audited FS, evaluate the appropriateness of using a different addressee.
<u>Factors affecting auditor’s evaluation of appropriateness of the addressee</u>:
• Terms of the engagement
• Nature of the entity
• Purpose of Summary F.S.</td></tr>
<tr><td>3. Introductory Paragraph</td><td>• Identifies Summary F.S. on which the auditor is reporting, including the title of each statement included in Summary F.S.;
• Identifies the audited F.S.;
• Refers to the auditor’s report on the audited F.S., the date of that report, and, subject to other requirements of this SA, the fact that an unmodified opinion is expressed on the audited FS;</td></tr>
</table>

		• If the date of the auditor’s report on Summary F.S. is later than the date of the auditor’s report on the audited FS, states that SFS and the audited FS do not reflect the effects of events that occurred subsequent to the date of the auditor’s report on the audited F.S.; and • A statement indicating that Summary F.S. do not contain all the disclosures required by FRF applied in the preparation of audited F.S., and that reading Summary F.S. is not a substitute for reading the audited F.S.
	4. Management’s responsibility para	explaining that management is responsible for the preparation of the summary financial statements in accordance with the applied criteria.
	5. Auditor responsibility statement	based on the procedures required by this SA.
	*6. **Auditor Opinion on Summary F.S.***	
	7. Auditor’s signature	Along with the firm registration number, wherever applicable, and the membership number assigned by the ICAI.
	*8. **Date of Auditor’s Report***	
	*9. **Place of Signature***	
	ADDITIONAL CONSIDERATIONS	
	Qualified Opinion/ EOM/ OM Para in Report on Audited FS	Auditor is satisfied that Summary F.S. are consistent in all material respects *or* are a fair summary of audited FS in accordance with applied criteria, report on SFS to also: **1.** State that audit report on FS contains qualified opinion/ EoM/OM para **AND** 2. Describe: • Basis for qualified opinion on audited FS, and that qualified opinion; or EOM/ OM para; and • Effect thereof on Summary F.S., if any.
	Adverse Opinion / Disclaimer of Opinion on Audited FS	Report on summary F.S. is required to include the following: 1. Statement that audit report contains adverse/ disclaimer of opinion; 2. Description of basis of such opinion; and 3. Statement that as a result of adverse/ disclaimer of opinion it is inappropriate to express an opinion on Summary F.S.
	Modified Opinion on Summary F.S.	Express *adverse opinion* if: 1. SFS are not consistent in all material respects with or are not a fair summary of audited FS in accordance with applied criteria. AND 2. Management does not agree to make the necessary changes.
Restriction on Distribution/ Use	When distribution or use of the auditor’s report on the audited FS is restricted, or the auditor’s report on the audited FS alerts readers that the audited FS are prepared in accordance with a special purpose framework, the auditor shall include a similar restriction or alert in the auditor’s report on Summary F.S.	
Comparatives	1. If audited FS contain comparatives, but Summary F.S. do not, determine whether such omission is reasonable in the circumstances of the engagement. 2. Determine the effect of unreasonable omission on the auditor’s report on Summary F.S. 3. If Summary F.S. contain comparatives that were reported on by another auditor: • Auditor’s report on Summary F.S. shall also contain the matters that SA 710 (R) requires the auditor to include in the auditor’s report on the audited FS.	

Unaudited Supplementary Info Presented with Summary F.S.	1. Evaluate whether such information is clearly differentiated from Summary F.S. 2. If entity's presentation of such information is not clearly differentiated from Summary F.S., the auditor shall ask management to change the presentation of such information. 3. If management refuses to do so, the auditor to explain in auditor's report on Summary F.S. that such information is not covered by that report.
Other Information In Documents Containing Summary F.S.	**(a)** Read other information to identify material inconsistencies *vis a vis* Summary F.S. **(b)** If material inconsistency identified: • Determine whether SFS or other info needs revision. **(c)** If material misstatement of fact identified: • Discuss the matter with mngt.
Auditor Association	If auditor becomes aware that entity plans to state that auditor has reported on Summary F.S. in a document containing Summary F.S., but does not plan to include the related auditor's report, the auditor shall request management to include the auditor's report in the document. If management does not do so, the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately associating the auditor with the Summary F.S. in that document.

Illustration of Auditor's Report on Summary F.S. – Unmodified Opinion on audited F.S. – Established Criteria Exist

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

The accompanying summary financial statements, which comprise the summary balance sheet as at March 31, 20X1, the summary statement of profit & loss, and summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company Ltd. for the year ended March 31, 20X1. We expressed an unmodified audit opinion on those financial statements in our report dated May 15, 20X1. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain all the disclosures required by the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") [applied in the preparation of the audited financial statements of ABC Company Ltd.]. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of ABC Company Ltd.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements in accordance with [Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") and accounting principles generally accepted in India.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Standard on Auditing (SA) 810 , "Engagements to Report on Summary Financial Statements" issued by the ICAI.

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of ABC Company Ltd. for the year ended March 31, 20X1 are a fair summary of those financial statements, in accordance with [Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") and accounting principles generally accepted in India].

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

Illustration of Auditor's Report on Summary F.S. – Unmodified Opinion on audited F.S. – Criteria are developed by Mngt. and adequately disclosed in Notes – Criteria is acceptable to auditor

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

The accompanying summary financial statements, which comprise the summary balance sheet as at March 31, 20X1, the summary statement of profit & loss, and summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company Ltd. for the year ended March 31, 20X1. We expressed an unmodified audit opinion on those financial statements in our report dated May 15, 20X114.

The summary financial statements do not contain all the disclosures required by the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") [applied in the preparation of the audited financial statements of ABC Company Ltd.]. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of ABC Company Ltd.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements on the basis described in Note X.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Standard on Auditing (SA) 810, "Engagements to Report on Summary Financial Statements" issued by the ICAI.

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of ABC Company Ltd. for the year ended March 31, 20X1 are a fair summary of those financial statements, on the basis described in Note X.

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

Illustration of Auditor's Report on Summary F.S. – Qualified Opinion on audited F.S. – Criteria are developed by Mngt. and adequately disclosed in Notes – Criteria is acceptable to auditor

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

The accompanying summary financial statements, which comprise the summary balance sheet as at March 31, 20X1, the summary statement of profit & loss, and summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company Ltd. for the year ended March 31, 20X117. We expressed a qualified audit opinion on those financial statements in our report dated May 15, 20X1 (see below).

The summary financial statements do not contain all the disclosures required by the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") [applied in the preparation of the audited financial statements of ABC Company Ltd.]. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of ABC Company Ltd.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements on the basis described in Note X.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Standard on Auditing (SA) 810, "Engagements to Report on Summary Financial Statements" issued by the ICAI.

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of ABC Company Ltd. for the year ended March 31, 20X1 are a fair summary of those financial statements, on the basis described in Note X. However, the summary financial statements are misstated to the equivalent extent as the audited financial statements of ABC Company Ltd. for the year ended March 31, 20X1.

The misstatement of the audited financial statements is described in our qualified audit opinion in our report dated May 15, 20X1. Our qualified audit opinion is based on the fact that the company's inventories are carried in the balance sheet in those financial statements 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 Standard (AS) 2, "Valuation of Inventories". 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 realizable value. Accordingly, cost of sales would have been increased by Rs. XXX, and income tax, net income and shareholders' equity would have been reduced by Rs. XXX, Rs. XXX and Rs. XXX, respectively. Our qualified audit opinion states that, except for the effects of the described matter, those

financial statements give a true and fair view of the state of affairs of ABC Company Ltd. as of March 31, 20X1, and (of) its results of operations and its cash flows for the year then ended in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act").

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

Illustration of Auditor's Report on Summary F.S. – Adverse Opinion on Audited F.S. – Criteria are developed by Mngt. and adequately disclosed in Notes – Criteria is acceptable to auditor

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

The accompanying summary financial statements, which comprise the summary balance sheet as at March 31, 20X1, the summary statement of profit & loss, and summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company Ltd. for the year ended March 31, 20X120.

The summary financial statements do not contain all the disclosures required by the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") [applied in the preparation of the audited financial statements of ABC Company Ltd.]. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of ABC Company Ltd.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements on the basis described in Note X.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Standard on Auditing (SA) 810, "Engagements to Report on Summary Financial Statements" issued by the Institute of Chartered Accountants of India.

Denial of Opinion

In our report dated May 15, 20X1, we expressed an adverse audit opinion on the financial statements of ABC Company Ltd. for the year ended March 31, 20X1. The basis for our adverse audit opinion was [describe basis for adverse audit opinion]. Our adverse audit opinion stated that [describe adverse audit opinion].

Because of the significance of the matter discussed above, it is inappropriate to express an opinion on the summary financial statements of ABC Company Ltd. for the year ended March 31, 20X1.

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

Illustration of Auditor's Report on Summary F.S. – Unqualified Opinion on Audited F.S. – Criteria are developed by Mngt. – Unmodified Opinion on Summary F.S.

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

The accompanying summary financial statements, which comprise the summary balance sheet as at March 31, 20X1, the summary statement of profit & loss, and summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company Ltd. for the year ended March 31, 20X1. We expressed an unmodified audit opinion on those financial statements in our report dated May 15, 20X123.

The summary financial statements do not contain all the disclosures required by the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") [applied in the preparation of the audited financial statements of ABC Company Ltd.]. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of ABC Company Ltd.

Management's Responsibility for the Summary Audited Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements in accordance with [Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") and accounting principles generally accepted in India].

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Standard on Auditing (SA) 810, "Engagements to Report on Summary Financial Statements" issued by the Institute of Chartered Accountants of India.

Basis for Adverse Opinion

[Describe matter that caused the summary financial statements not to be a fair summary of the audited financial statements, in accordance with the applied criteria.]

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the summary financial statements referred to above are not a fair summary of the audited financial statements of ABC Company Ltd. for the year ended March 31, 20X1, in accordance with [Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") and accounting principles generally accepted in India].

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

SRE 2400 (Revised) "Engagements to Review Financial Statements"

Purpose	• to establish standards and provide guidance • on the Practitioner's professional responsibilities • when a practitioner, who is not the auditor of an entity, • undertakes an engagement to review financial statements; and • on the form and content of the report that the practitioner issues in connection with such a review.
Objective	• to enable a practitioner to state whether, • on the basis of procedures which do not provide all the evidence that would be required in an audit, • anything has come to the practitioner's attention that causes • the practitioner to believe that the F.S. are not prepared, in all material respects, in accordance with the applicable FRF (negative assurance).
General Principles	(a) Comply with ICAI Code of Ethics. (b) Conduct review in accordance with this SRE. (c) Exercise professional skepticism while: • Planning review. • Performing review. (d) Obtain sufficient appropriate evidence: • For expressing negative assurance. • Primarily through inquiry & analytical procedures.
Scope of Review	(a) Refers to review procedures deemed necessary in circumstances to achieve objectives of review. (b) Procedures should be determined having regard to requirements of: • This SRE. • Relevant professional bodies. • Legislation & regulation. • Terms of engagement. • Reporting requirements.
Terms of Engagement	(a) Agree Terms of Engagement with the client: • Engagement letter. • Other suitable form of contract. (b) Send to client an engagement letter documenting key terms of appointment: • Confirms practitioner's acceptance of appointment. • Avoids misunderstandings reg. objectives & scope. • Clarifies practitioner's responsibility. • Assists in planning the review. • Clarifies form of report to be issued.
Contents of Engagement Letter	(a) Objective of service. (b) Mgt responsibility for FS. (c) Scope of review. (d) Reference to SRE 2400. (e) Unrestricted access to records / documents / information. (f) Specimen report. (g) Fact that engagement will not disclose errors / illegal acts / other irregularities. (h) Audit not being performed so no audit opinion expressed. Note: A statement that an audit is not being performed and that an audit opinion will not be expressed. To emphasize this point and to avoid confusion, practitioner may also consider pointing out that a review engagement will not satisfy any statutory or third party requirements for an audit. Refer Specimen Engagement letter at the end

Planning	(a) Obtain/ update knowledge of business w.r.t.: • Organisation. • Accounting systems. • Operating characteristics. • Nature of assets, liabilities, revenues & expenses. (b) Need to have understanding of other matters relevant to FS. (c) Knowledge needed to: • Make relevant inquiries. • Design appropriate procedures. • Assess the responses & other information obtained.
Work Performed by Others	Practitioner should be satisfied that such work is adequate for purposes of review.
Documentation	Document matters important in providing evidence: • To support the review report; and • That review was carried out in accordance with this SRE.
Procedures & Evidence	1. Apply judgment in determining specific nature, timing & extent of procedures. 2. Apply same materiality considerations as in audit. 3. Also inquire about events subsequent to date of FS that may require adjustment/ disclosure in FS. 4. Information materiality misstated: If reason to believe that information subject to review may be materially misstated: • Carry out additional or more extensive procedures as necessary. • To be able to express negative assurance or to confirm that a modified report is required. ***<u>Procedures to be performed</u>***: 1. Obtaining an understanding of the entity's business and the industry in which it operates. 2. Inquiries concerning the entity's accounting principles and practices. 3. Inquiries concerning the entity's procedures for recording, classifying and summarising transactions, accumulating information for disclosure and preparation of F.S. 4. Inquiries concerning all material assertions in the financial statements. 5. Analytical procedures designed to identify relationships and individual items that appear unusual. Such procedures would include: • Comparison of the financial statements with statements for prior periods. • Comparison of the financial statements with anticipated results and financial position. • Study of the relationships of the elements of the F.S. that would be expected to conform to a predictable pattern based on the entity's experience or industry norm. 6. Inquiries concerning actions taken at meetings of shareholders, the board of directors, committees of the board of directors and other meetings that may affect the financial statements. 7. Reading the F.S. to consider, on the basis of information coming to the practitioner's attention, whether the F.S. appear to conform with the basis of accounting indicated. 8. Obtaining reports from other practitioners, if any. 9. Inquiries of persons having responsibility for financial and accounting matters concerning, for example: • Whether all transactions have been recorded. • Whether the financial statements have been prepared in accordance with the basis of accounting indicated. • Changes in the entity's business activities and accounting principles and practices. • Matters as to which questions have arisen in the course of applying the foregoing procedures. • Obtaining written representations from management when considered appropriate.

Conclusions and Reporting	a. Report should contain a clear written expression of negative assurance. b. Assess whether any information obtained during review indicates: • FS do not give true and fair view in accordance with FRF. ***<u>Elements of a review report</u>***: (a) Title; (b) Addressee; (c) Opening or introductory paragraph including: • Identification of the FS on which the review has been performed; and • A statement of responsibility of mgt and responsibility of practitioner; (d) Scope paragraph, describing the nature of a review, including: • A reference to this SRE applicable to review engagements, or to relevant national standards or practices; • A statement that a review is limited primarily to inquiries and analytical procedures; and • A statement that an audit has not been performed, that the procedures undertaken provide less assurance than an audit and that an audit opinion is not expressed; (e) Statement of negative assurance; (f) Date of report; (g) Place of Signature; (h) Practitioner's signature and membership number assigned by the ICAI; and (i) Firm's registration number allotted by ICAI.	
	FS Gives a true and Fair view	State that: Nothing has come to practitioner's attention that causes practitioner to believe that the FS do not give a true and fair view in accordance with the applicable FRF.
	If True and Fair View is Impaired	1. Describe the matters that impair true & fair view. 2. Unless impracticable, quantify the possible effects on the FS and either: • Qualify the negative assurance, OR • Provide adverse statement (if circumstances so warrant).
	Material Scope Limitation	Describe the limitation and either: • Express a qualification of negative assurance provided regarding possible adjustments to FS that might have been deemed necessary had the limitation not existed; OR • When possible effect of limitation is so significant & pervasive that no level of assurance can be provided, do not provide any assurance.
Date of Report	• Date as of the date the review is completed, including, performing procedures relating to events occurring upto date of report. • Should not be a date prior to date on which FS were approved by management.	

Specimen of an Engagement Letter for a Review of Financial Statements

To the Board of Directors (or the appropriate representative of senior management):

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following services:

We will review the balance sheet of ABC Company as at March 31, 20XX, and the related statement of profit and loss and the cash flows for the year then ended, in accordance with the Revised Standard on Review Engagements (SRE) 2400, "Engagements to Review Financial Statements", issued by the ICAI.

We will not perform an audit of such financial statements and, accordingly, we will not express an audit opinion on them. Accordingly, we expect to report on the financial statements as follows:

[Include Text of Sample report]

Responsibility for the financial statements, including adequate disclosure, is that of the management of the company. This includes the maintenance of adequate accounting records and internal controls and the selection and application of accounting policies. (As part of our review process, we will request written representations from management concerning assertions made in connection with the review).

This letter will be effective for future years unless it is terminated, amended or superseded (if applicable).

Our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, we will inform you of any material matters that come to our attention.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our review of the financial statements.

For ABC and Co.,
Chartered Accountants
Firm's Registration Number

Auditor's Signature
(Name of Member signing the Audit Report)
(Designation)
(Membership Number)

Acknowledged on behalf of ABC Company by
(signed)
....
Name and Title
Date

Form of Unqualified Review Report

REVIEW REPORT TO...

We have reviewed the accompanying balance sheet of ABC Company as at March 31, 20XX, and related statement of profit and loss, and the cash flow statement for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the Revised Standard on Review Engagements (SRE) 2400, "Engagements to Review Financial Statements", issued by the Institute of Chartered Accountants of India (ICAI). This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements do not give a true and fair view (or are not presented fairly, in all material respects) in accordance with the Financial Reporting Standards.

For ABC and Co.,
Chartered Accountants
Firm's Registration Number

Auditor's Signature
(Name of Member signing the Audit Report)
(Designation)
Membership Number

Place of Signature
Date

SRE 2410 "Review of Interim Financial Information performed by Independent Auditor of the Entity"

Interim Financial Information (IFI)

Financial information:

- Prepared & presented in accordance with applicable FRF.
- Comprises either a complete or condensed set of F.S.
- For a ***period that is shorter*** than entity's FY.

SRE Application Matrix

	Review of F.S.	*Review of IFI*
Independent auditor	SRE 2400	SRE 2410
Other Practitioner	SRE 2400	SRE 2400

(a) For audit engagements, independent auditor would have obtained understanding of entity and its environment including internal control.

(b) For reviewing IFI he updates this understanding through *inquiry & analytical procedures*.

(c) Other does not ordinarily have the same level of understanding, hence requires to perform different inquiries & procedures to meet the objective.

General Principles of review of IFI

- Comply with *ethical requirements* applicable to audit of annual FS of entity.
- Implement *quality control procedures* applicable to individual engagement.
- Plan & perform engagement with attitude of *professional skepticism.*

Objective of Engagement to Review IFI

- Enable auditor to express a conclusion whether,
- On the basis of the review,
- Anything has come to auditor's attention,
- That causes auditor to believe,
- That IFI is not prepared, in all material respects, in accordance with applicable FRF.

Objective of Review of IFI vis-à-vis Objective of Audit:

(a) Review of IFI does not provide a basis for expressing an opinion whether the financial information gives a true and fair view, or is presented fairly, in all material respects, in accordance with applicable FRF.

(b) Review not designed to obtain reasonable assurance that IFI is free from material misstatement.

(c) Review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

(d) Review may bring significant matters affecting IFI to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

Agreeing the Terms of Engagement

1. Auditor & client should agree on Terms of Engagement.
2. Terms of Engagement ordinarily recorded in engagement letter.
3. Terms of Engagement helps in avoiding misunderstandings w.r.t.:
    - Nature of engagement.
    - Objective and scope of review.
    - Management's responsibilities.
    - Auditor's responsibilities.
    - Assurance obtained.
    - Nature and form of report.

Matters to be covered in Terms of Engagement:

1. Objective of a review of IFI.
2. Scope of review.
3. Management's responsibility for:
    - The IFI.
    - Establishing and maintaining effective internal control relevant to preparation of IFI.
    - Making all financial records & related information available to auditor.

	4. Management's agreement to provide written representations to auditor to confirm representations made orally during review, as well as representations implicit in entity's records. 5. Anticipated form and content of report to be issued, including identity of addressee of report. ***6.*** Management's agreement that where any document containing IFI indicates that IFI has been reviewed by entity's auditor, review report will also be included in document.	
Procedures for a Review	***Understanding the entity and Its environment***	(a) Needed because it relates to preparation of annual FI as well as IFI. (b) Should be sufficient to plan and conduct review to: • Identify types of potential material misstatements and consider likelihood of occurrence. • Select inquiries & analytical & other review procedures. (c) Update understanding obtained during annual audits wrt preparation of annual FS. (d) Obtain sufficient understanding of internal controls over preparation of IFI. (e) Use the understanding to: • Determine inquiries to be made & analytical and other review procedures to be applied. • Identify particular events, transactions/ assertions to which inquiries/other procedures may be directed/applied. (f) Determine nature of review procedures required for components. Factors to consider: • Component's materiality. • Risk of misstatement in component's IFI. • Extent of centralisation/ decentralisation of internal controls over preparation of component IFI. ***<u>Procedures performed by the auditor to update the understanding of the entity and its environment, including its internal control</u>*****:** 1. Reading documentation, to the extent necessary, of the preceding year's audit and reviews of prior interim period(s) of the current year and corresponding interim period(s) of the prior year, to enable the auditor to identify matters that may affect the current-period IFI. 2. Reading the most recent annual and comparable prior period IFI. 3. Considering any significant risks, including the risk of management override of controls, that were identified in the audit of the prior year's FS. 4. Considering materiality with reference to the applicable FRF as it relates to IFI to assist in determining nature and extent of procedures to be performed and evaluating effect of misstatements. 5. Considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's FS. 6. Considering significant financial accounting and reporting matters that may be of continuing significance such as material weaknesses in internal control. 7. Considering results of any audit procedures performed with respect to the current year's FS. 8. Considering results of any internal audit performed and the subsequent actions taken by management.

		9. Inquiring of management about the results of management's assessment of the risk that the IFI may be materially misstated as a result of fraud. 10. Inquiring of management about the effect of changes in the entity's business activities. 11. Inquiring of management about any significant changes in internal control and the potential effect of any such changes on the preparation of IFI. 12. Inquiring of management of the process by which the IFI has been prepared and the reliability of the underlying accounting records to which the IFI is agreed or reconciled.
	Inquires, Analytical and Other Review Procedures	(a) Auditor should make inquiries and Perform Analytical and Other Review Procedures. (b) Nature & extent of Inquiries & Analytical and Other Review Procedures affected by: • Understanding of entity & its environment. • Results of risk assessment relating to preceding audit. • Materiality considerations. (c) Ordinarily auditor not required to test accounting records through inspection/ observation/ confirmation. (d) Some procedures can be before or simultaneous with preparation of IFI. ***(e)*** Direct external confirmations ordinarily not necessary.
	Collection of Evidences	(a) Obtain evidence that the IFI agrees or reconciles with the underlying accounting records. For this purpose, auditor may trace the IFI to: • The accounting records, such as the general ledger, or a consolidating schedule that agrees or reconciles with the accounting records; and • Other supporting data in the entity's records as necessary. (b) 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. (c) Inquire whether management has changed its assessment of the entity's ability to continue as a going concern. (d) When, as a result of this inquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor should: • Inquire of management as to its plans for future actions based on its going concern assessment, the feasibility of these plans, and whether management believes that the outcome of these plans will improve the situation; and • Consider the adequacy of the disclosure about such matters in the interim financial information. ***(e)*** 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 pre pared, in all material respects, in accordance with the applicable FRF, the auditor should make additional inquiries or perform other procedures to enable the auditor to express a conclusion in the review report.
Evaluation of Misstatements	(a) Evaluate, individually & in aggregate, whether uncorrected misstatements that have come to auditor's attention are material to IFI.	

	(b) Not required to obtain reasonable assurance that IFI is free of material misstatements. (c) Exercise professional judgment in evaluating materiality of misstatements. ***(d)*** May designate amount below which aggregation not to be done if such aggregation would not have material impact on IFI.
Management Representations	Obtain written representations from mgt: 1. Responsibility for design and implementation of internal control to prevent and detect fraud and error. 2. IFI is prepared and presented in accordance with applicable FRF. 3. Uncorrected misstatements aggregated by auditor during review are immaterial, both individually and in the aggregate, to IFI. 4. Has disclosed to the auditor: • All significant facts relating to any frauds or suspected frauds known to management that may have affected the entity. • Results of its assessment of the risks that the IFI may be materially misstated as a result of fraud. • All known actual or possible non-compliance with laws and regulations whose effects are to be considered when preparing the IFI. • 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 IFI.
Auditor's Responsibility for Accompanying Information	(a) The auditor should *<u>read the other information</u>* that accompanies the IFI to consider whether any such information is *<u>materially inconsistent</u>* with the IFI. ***(b)*** If a matter comes to the auditor's attention that causes the auditor to believe that the other information appears to include a material misstatement of fact, the auditor should *<u>discuss the matter with the entity's management</u>*.
Communication	1. If auditor believes that it is necessary to make a material adjustment to IFI: • Communicate this matter as soon as practicable to appropriate level of mngt. 2. If mgt does not respond appropriately within reasonable time, inform to TCWG. 3. If TCWG do not respond appropriately within reasonable time, consider: • Whether to modify the report; or • Possibility of withdrawing from engagement; and • Possibility of resigning from appointment to audit the annual FS. 4. If a matter comes to auditor's attention that causes auditor to believe in: • Existence of fraud or non-compliance by entity with L&R, • Communicate matter as soon as practicable to appropriate level of management. ***5.*** Communicate relevant matters of governance interest arising from review of IFI to TCWG.
Reporting the Nature, Extent and Results of Review of IFI	The auditor should issue a written report that contains the following: a. An appropriate title. b. An addressee, as required by the circumstances of the engagement. c. Identification of the IFI reviewed. d. Management responsibility for preparation of Interim Financial Information. e. Statement for Auditor's Responsibility for expressing a conclusion on the IFI. f. Statement that review of IFI was conducted in accordance with SRE 2410. g. Statement that review is substantially less in scope than an audit h. Auditor's Conclusion. i. The date of the report. j. Place of signature. k. Membership number. ***l.*** Firm registration number.

Departure from applicable FRF	Express a *qualified or adverse conclusion* • when a matter has come to the auditor's attention that causes the auditor to believe that a material adjustment should be made to the IFI for it to be prepared, in all material respects, in accordance with the applicable FRF.
Limitation on Scope	(a) If unable to complete review: • Communicate in writing to appropriate level of mgt and to TCWG the reason why review cannot be completed, and • Consider whether it is appropriate to issue a report. (b) Do not accept review engagement: • If preliminary knowledge indicates inability to complete review due to limitation on scope by Mgt. (c) If after accepting engagement, limitation imposed by mgt: • Request removal of limitation. • If mngt refuses, communicate in writing to mngt & TCWG w.r.t. why engagement cannot be completed. • Consider legal and regulatory responsibilities.
Going Concern and Significant Uncertainties	**Going Concern:** Material uncertainty exists w.r.t. entity's ability to continue as a going concern: a. **If adequate disclosure made in IFI:** Emphasis of matter para should be added. b. **If adequate disclosure not made in IFI:** • Express a qualified or adverse conclusion, as appropriate. • Include specific reference to fact of such material uncertainty. *Significant Uncertainty* 1. Consider *modifying review report* by adding a paragraph. 2. To *highlight a significant uncertainty* coming to auditor's attention. 3. Resolution of which is dependent upon future events and which may affect the IFI.
Documentation	Sufficient and appropriate to: 1. Provide a basis for the auditor's conclusion; and 2. Provide evidence that review was performed in accordance with: • this SRE; and • applicable legal and regulatory requirements.
Examples of Analytical procedures that auditor may consider when performing a Review of IFI	1. Comparing the IFI with the IFI information of the immediately preceding interim period. 2. Comparing current IFI with anticipated results, such as budgets or forecasts 3. Comparing current IFI with relevant non-financial information. 4. Comparing the recorded amounts, or ratios developed from recorded amounts, to expectations developed by the auditor. 5. Comparing ratios and indicators for the current interim period with those of entities in the same industry. 6. Comparing relationships among elements in the current IFI with corresponding relationships in the IFI of prior periods, for example, expense by type as a percentage of sales, assets by type as a percentage of total assets, and percentage of change in sales to percentage of change in receivables. 7. Comparing disaggregated data. Examples are: • By period, for example, revenue or expense items disaggregated into quarterly, monthly, or weekly amounts. • By product line or source of revenue. • By location, for example, by component. • By attributes of the transaction, for example, revenue generated by designers, architects, or craftsmen. • By several attributes of the transaction, for example, sales by product and month.

Example of an Engagement Letter for a Review of Interim Financial Information

To the Board of Directors of ABC Company Ltd.

We are providing this letter to confirm our understanding of the terms and objectives of our engagement to review the entity's interim balance sheet as at September 30, 20X1 and the related statement of profit & loss and cash flows for the six-month period then ended.

Our review will be conducted in accordance with Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the ICAI with the objective of providing us with a basis for reporting whether anything has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with the _____________ [indicate applicable FRF]. Such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures and does not, ordinarily, require corroboration of the information obtained. The scope of a review of IFI is substantially less than the scope of an audit conducted in accordance with Standards on Auditing whose objective is the expression of an opinion regarding the financial statements and, accordingly, we shall express no such opinion.

We expect to report on the interim financial information as follows:

[Include text of sample report.]

Responsibility for the interim financial information, including adequate disclosure, is that of management of the entity. This includes designing, implementing and maintaining internal control relevant to the preparation and presentation of interim financial information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

As part of our review, we will request written representations from management concerning assertions made in connection with the review. We will also request that where any document containing interim financial information indicates that the interim financial information has been reviewed, our report will also be included in the document.

A review of IFI does not provide assurance that we will become aware of all significant matters that might be identified in an audit. Further, our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, we will inform you of any material matters that come to our attention.

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our review.

[Insert additional information regarding fee arrangements and billings, as appropriate.]

This letter will be effective for future years unless it is terminated, amended or superseded (if applicable).

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our review of the interim financial information including our respective responsibilities.

XYZ & Co.
Chartered Accountants
Firm's Registration Number
…………………………
(Signature)

Date : (Name of the Member)

Place : (Designation)

Acknowledged on behalf of ABC Company by

……………………..

(Signature)

Name and Designation

Date

Example of Unqualified Review Reports on Interim Financial Information consists of complete Set of General Purpose FS Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation

Report on Review of Interim Financial Information
(Appropriate addressee)
Introduction
We have reviewed the accompanying balance sheet of ABC Entity as of June 30, 20X1 and the related statements of profit & loss and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with ____________ [indicate applicable FRF]. Our responsibility is to express a conclusion on this interim financial information based on our review.
Scope of Review
We conducted our review in accordance with SRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.
Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of (or "does not present fairly, in all material respects,") the State of Affairs of the entity as at June 30, 20X1, and of its Results of Operations and its cash flows for the three month period then ended in accordance with ___________ [applicable FRF]

For ABC and Co.,
Chartered Accountants
Firm's Registration Number

Auditor's Signature
(Name of Member signing the Audit Report)
(Designation)
Membership Number

Place of Signature
Date

Example of Qualified Review Reports on Interim Financial Information consists of complete Set of General Purpose FS Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation

Report on Review of Interim Financial Information
(Appropriate addressee)
Introduction
Scope of Review
Basis for Qualified Conclusion
Based on information provided to us by management, ABC Entity has excluded from property and long-term debt certain lease obligations that we believe should be capitalized to conform with [indicate applicable financial reporting framework]. This information indicates that if these lease obligations were capitalized at June 30, 20X1, property would be increased by Rs.______, long-term debt by Rs.______, and net income and earnings per share would be increased (decreased) by Rs.________, Rs._________, Rs.________, and Rs.________, respectively for the three month period then ended.
Qualified Conclusion
Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of (or "does not present fairly, in all material respects,") the State of Affairs of the entity as at June 30, 20X1, and of its Results of Operations and its cash flows for the three month period then ended in accordance with [indicate applicable financial reporting framework].

For ABC and Co.,
Chartered Accountants
Firm's Registration Number

Auditor's Signature
(Name of Member signing the Audit Report)
(Designation)
Membership Number

Place of Signature
Date