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CHAPTER 5 700-799 AUDIT CONCLUSIONS & REPORTING

1. SA-700 FORMING AN OPINION & REPORTING ON FINANCIAL STATEMENTS

OBJECTIVE OF SA 700

1. From an opinion on the FS based on an evaluation of the conclusions drawn from audit evidence obtained and
2. Express clearly that opinion through a written report that also describes the basis for the opinion.

General Purpose Framework

This Financial Reporting Framework (FRF) meets the common financial information needs of many users. It may be of **two types**:

1. Fair Presentation Framework:

- ✚ FRF that requires compliance with the requirements of FRF and acknowledges that **Management may provide disclosures beyond those specifically required by the framework**.
- ✚ Management **may depart** from requirements of framework to achieve **fair presentation** of FS.
- ✚ **Example**: FS of a company.

2. Compliance Framework :

FRF requiring compliance with requirements of the framework but does not contain acknowledgement as above.

FORMING AN OPINION ON THE FS

1. Auditor shall form an opinion as to whether the FS are prepared in accordance with applicable FRF.
2. To form such an opinion, he shall obtain reasonable assurance as to whether FS as a whole are free from material misstatements.
3. In forming such opinion he shall **consider the following**:
 - ✚ **Sufficiency & appropriateness** of audit evidences,
 - ✚ **Materiality** of uncorrected misstatements,
 - ✚ Adequacy of **disclosures** in FS,
 - ✚ Consistency of **accounting Policies** with applicable FRF,
 - ✚ Reasonableness of **Accounting Estimates**,
 - ✚ Reliability & relevance of financial information,
 - ✚ Adequacy of **disclosure** of material transactions & Events,
 - ✚ Appropriateness of **Terminology** used in FS.
4. In case of **fair presentation framework**, he shall also consider:
 - ✚ **Overall presentation**, structure and content of the FS, &
 - ✚ Whether FS represent the underlying transactions & events to **achieve** fair presentation.

FORM OF OPINION

1. Unmodified Opinion:

When he concludes that FS are prepared, in all material respects, in accordance with applicable FRF

2. Modified Opinion:

When the auditor:

- ✚ Concludes that FS as a whole are **not free** from material misstatements, or
- ✚ Is **unable to obtain sufficient and appropriate evidence** to conclude that the FS as a whole are free from material misstatement.

AUDITOR'S REPORT

Auditor's report for audits conducted in accordance with SA's has following **basic elements**:

1. Title:

Clearly indicating that it is an **"Independent Auditor's Report"**, So that it can be distinguished from the reports issued by others.

2. Addressee:

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

3. Introductory Paragraph

The introductory paragraph in the auditor's report shall:

- ✚ Identify the entity whose FS have been audited;
- ✚ State that the FS have been audited;
- ✚ Identify the title of each statement that comprises the FS
- ✚ Refer to the summary of accounting policies and other explanatory information
- ✚ Specify the date or period covered by each FS comprising the FS.

4. Management's Responsibility for the FS

It describes the responsibility of Management / TCWG who are responsible for preparation of FS. It states that management is responsible for:

- ✚ Preparation of FS as per applicable FRF;
- ✚ Design, implementation & maintenance of internal controls; &
- ✚ Fair presentation of FS (in case, FS are prepared as per fair presentation framework)

5. Auditor's Responsibility

This Para shall state that:

- ✚ Responsibility of auditor is to express an opinion on the FS;
- ✚ Audit was conducted in accordance with SA issued by ICAI;
- ✚ Auditor complied with ethical requirements;
- ✚ Auditor obtained assurance as to whether FS are free from material misstatements;
- ✚ Audit involves procedures to obtain evidences about amounts & disclosures in FS;
- ✚ Procedures depend on the auditor's judgment including RAP;
- ✚ Auditor considers internal controls but do not express opinion thereon.
- ✚ Audit includes evaluation of accounting policies & overall presentation of FS; and
- ✚ Auditor believes that audit evidences are sufficient to provide basis for auditor's report.

6. Auditor's Opinion

- ✚ While expressing unmodified opinion he shall use following:
- ✚ In Case of Fair Presentation Framework – FS present fairly in accordance with [Applicable FRF]. FS give true & fair view in accordance with [Applicable FRF]
- ✚ In Case of Compliance Framework - FS are prepared in all material respects in accordance with [applicable FRF]

7. Other Reporting Responsibilities

- ✚ If there is any requirement, there shall be a separate heading "Report on other legal and Regulatory Requirements".
- ✚ For Example - CARO in case of audit of a company.

8. Date of Auditor's Report

- ✚ It can't be earlier than the date on which:
- ✚ All components of FS have been prepared, &
- ✚ Management/TCWG have asserted that they have taken the responsibility for those FS.

9. Place of Signature

Specific location (The city where the audit report is signed)

10. Signature of the Auditor

- ✚ In Case Of Sole Practitioner
 - ✓ It is signed in the personal name of auditor.
 - ✓ Mention membership no. of member in ICAI as well.
- ✚ In Case Of Firm
 - ✓ It is signed in personal name of proprietor/Partner as well as in the name of firm.
 - ✓ Firm's registration no. is also mentioned in this case.

SUPPLEMENTARY INFORMATION PRESENTED WITH FS

1. Auditor shall evaluate whether it is clearly differentiated from the audited FS.
2. If not, then he shall ask the management to change the way it is presented.
3. If management refuses to do so, the auditor shall mention is the audit report that such supplementary information has not been audited.

1. SA-705 MODIFICATION TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

OBJECTIVE OF SA 705

To express clearly an appropriately modified opinion on FSs when the auditor:

1. Concludes, based on the evidences obtained that the FSs as whole are not free from material misstatements, or
2. Is unable to obtain sufficient and appropriate evidence to conclude that FSs as whole are free from material misstatements.

TYPES OF MODIFIED OPINIONS

1. This SA establishes three types of modified opinions, namely,
 - I. a **qualified opinion**,
 - II. an **adverse opinion**, and
 - III. A **disclaimer of opinion**.
2. The **decision** regarding which type of modified opinion is appropriate **depends upon**:
 - a) The **nature of the matter** giving rise to the modification, that is, whether the FS are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
 - b) The **auditor's judgment** about the pervasiveness of the effects or **possible effects of the matter** on the FS.

	Material but Not Pervasive	Material and Pervasive
FS are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

3. After Accepting the Engagement, If Management Imposes Limitations, He shall request the Management to Remove the Same

If Management		
Removes The Same	Refuses To Remove The Same	
OK	Communicate to TCWG	
Continue	Whether it is possible to perform alternate procedures to obtain sufficient appropriate evidences	
	Yes	No
	If Possible Effect on FS	
	Material But Not Pervasive Material And Pervasive	
	Qualified Opinion Determine Possibility Of Resignation	
	Y	No
	Resign	Communicate to TCWG + Disclaimer

CIRCUMSTANCES WHEN A MODIFICATION TO THE AUDITOR'S OPINION IS REQUIRED

The auditor shall **modify the opinion** in the auditor's report when the auditor:

1. **Concludes**, based on the evidences obtained that the FS as a whole are not free from material misstatements, or
2. Is **unable to obtain** sufficient and appropriate **evidences** to conclude that FS as a whole are free from material misstatements.

DETERMINING THE TYPE OF MODIFICATION TO THE AUDITOR'S OPINION

1. Qualified Opinion:

The auditor shall express a qualified opinion when:

- ✚ The auditor, having **obtained sufficient appropriate** audit evidence, concludes that misstatements, individually or in the aggregate, are **material, but not pervasive**, to the FS;
- ✚ The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the **possible effects** on the FS **of undetected misstatements**, if any, could be **material but not pervasive**.

2. Adverse Opinion:

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

3. Disclaimer of Opinion:

- ✚ The auditor shall disclaim an opinion when the auditor is **unable to obtain sufficient appropriate audit evidence** on which to base the opinion, and the auditor concludes that the possible effects on the FS of undetected misstatements, if any, could be both **material and pervasive**.
- ✚ The auditor shall **disclaim an opinion** when, in extremely rare circumstances involving **multiple uncertainties**, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is **not possible** to form an opinion on the FS due to the potential interaction of the uncertainties and their possible cumulative effect on the FS.

4. Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management - Imposed Limitation after the Auditor Has Accepted the Engagement:

1) Request for removal of Scope Limitation:

If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a **qualified opinion or to disclaim an opinion** on the FS, the auditor shall request management to **remove the limitation**.

2) Communicate with Governance Team:

If management **refuses to remove** the limitation, the auditor shall **communicate the matter to those charged with governance** and determine whether it is possible to **perform alternative procedures** to obtain sufficient appropriate audit evidence.

3) Qualified Opinion:

If the auditor is unable to obtain sufficient appropriate audit evidence, and if he concludes that the possible effects on FSs of undetected mis-statements, if any, could be material but not pervasive, auditor shall Qualified the Opinion.

4) If Qualification Is Inadequate:

If the auditor is unable to obtain sufficient appropriate audit evidence, and if he concludes that the possible effects on FSs of undetected mis-statements, if any, could be **both material and pervasive** so that a **qualification** of the opinion would be **inadequate** to communicate the gravity of the situation, the auditor shall:

- ✚ **Resign** from the audit, where practicable and not prohibited by law or regulation; or
- ✚ If resignation from the audit before issuing the auditor's report is not practicable or possible, **disclaim an opinion** on the FS.

5. Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion:

- ✚ When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the FS as a whole, the auditor's report **shall not also include an unmodified opinion** with respect to the same financial reporting framework **on a single FS or one or more specific elements**, accounts or items of a FS.
- ✚ To include such an unmodified opinion in the same report in these circumstances would **contradict** the auditor's adverse opinion or disclaimer of opinion on the FS as a whole.

FORM & CONTENT OF AUDITOR'S REPORT IN CASE OF MODIFIED OPINION

1. Basis for Modification Paragraph:

- ✚ He shall, in addition to SA 700, place this Para immediately before the opinion Para.
- ✚ Its **heading** is "Basis for _____ opinion" as appropriate.
- ✚ Here, he shall **describe the matter** giving rise to modification. It includes **quantification of financial effects** of matter unless impracticable.
- ✚ If **not practicable to quantify, state this fact**.

2. Basis for Qualified Opinion:

Except for the effects of matter described in the "Basis for qualified opinion" Para,

- ✚ The FS present fairly, in all material respects (or give a true & fair view) in accordance with fair presentation framework, or
- ✚ The FS have been prepared in all respects, in accordance with compliance framework.

3. Basis for Adverse Opinion:

In the auditor's opinion because of significance of matters described in the basis for adverse opinion Para:

- ✚ The FS do **not present fairly** (or give a true & fair view) in accordance with the fair presentation framework; or
- ✚ The FS have **not been prepared**, in accordance with compliance **framework**."

4. Basis for Disclaimer of Opinion:

Because of significance of the matter described in the “basis for disclaimer” Para, the auditor has not been able to obtain sufficient appropriate evidence & thus, the auditor does not express an opinion on the FS.

5. Description of Auditor’s Responsibility:

- ✚ In case of Qualified/Adverse Opinion - State that auditor has **obtained** sufficient & appropriate evidences to provide a **basis for Auditor’s modified opinion**
- ✚ In case of Disclaimer of Opinion - State that auditor has **obtained not able to obtain** sufficient & appropriate evidences and **a basis for such opinion**

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

In case he expects to **modify his opinion**, He shall **communicate** the circumstances & proposed wordings.

SA-706 EMPHASIS OF MATTER PARAGRAPHS & OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR’S REPORT

OBJECTIVE OF SA 706

The objective of the auditor, having formed an opinion on the FS, is to draw users’ attention, when in the auditor’s judgment it is necessary to do so, by way of clear additional communication in the auditor’s report, to:

1. A **matter**, although appropriately presented or disclosed in the FS, that is of such **importance** that it is **fundamental** to users’ understanding of the FS; or
2. As appropriate, **any other matter** that is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report.

EMPHASIS OF MATTER PARAGRAPH

1. Meaning:

Para which refers to a matter appropriately incorporated in the FS, which is of such importance that it is fundamental to user’s understanding of FS.

2. In Audit Report: Place it immediately after the opinion paragraph in auditor’s report.

3. Heading: “Emphasis of matter”

4. It Includes: Clear reference to the matter being emphasized; and where exactly it can be found in the FS.

5. Clarification by Auditor: That audit opinion is not modified in respect of the matter emphasized

6. Examples where Emphasis of Matter may be necessary:

- ✚ Substantial doubt about going concern properly disclosed in FS.
- ✚ Material change in the accounting policy.
- ✚ Early application of a new accounting standard.
- ✚ Uncertainty relating to a pending litigation, properly disclosed in the FS by management.

OTHER MATTER PARAGRAPH

1. Meaning:

Para relating to matter, Other than those in FS, which is relevant to, User’s understanding or auditor’s responsibility or his report.

2. In audit report: After the “Opinion” Para & any “Emphasis of matter” Para

3. Heading: “Other Matter”

4. Examples:

Where it is necessary

- ✚ Other reporting responsibilities in case of audit of a company
- ✚ LFAR in case of audit of a bank.

COMMUNICATION WITH TCWG

If auditor expects to include an Emphasis of matter or other matter paragraph, he shall communicate the same to TCWG.

OBJECTIVE OF SA 710

1. To obtain sufficient appropriate audit evidence about whether the comparative information included in the FS has been presented in all material respects, in accordance with the requirements for comparative information in the applicable FRF; and
2. To report in accordance with the auditor's reporting responsibilities.

AUDIT REPORTING DIFFERENCE BETWEEN TWO THE APPROACHES

1. For **corresponding** figures, auditor's opinion on FS refers to **current period only**.
2. For **comparative FS**, auditor's opinion refers to **each period** for which FS are presented.

AUDIT PROCEDURES

1. Determine as to Whether
2. Evaluate Whether
3. Professional Skepticism
4. Obtain Written Representation

1. Determine as to Whether:

- ✚ FS include Comparative information required by FRF, &
- ✚ Such information is classified appropriately.

2. Evaluate Whether:

- ✚ Comparative information agrees with the amounts and other disclosures presented in the prior period; and
- ✚ Accounting policies reflected in the comparative information are **consistent** with those applied in the current period.
- ✚ **Changes** in accounting policies, if any, have been properly accounted for and disclosed.

3. Professional Skepticism:

- ✚ In case there is a doubt of Material Misstatement in comparative information;
- ✚ He shall perform **additional audit procedures** to obtain sufficient appropriate audit evidence regarding existence of material misstatement.

4. Obtain Written Representation:

- ✚ For all periods referred to in his opinion.
- ✚ Also, for any prior period item **separately disclosed** in current year's profit and loss statement

AUDIT REPORTING

1. Basic Principle [Para 10 & A.2]:

When corresponding figures are presented, the auditor's opinion **shall not refer** to the corresponding figures, since his opinion is on current period FSs as whole, including the corresponding Figures. (However, exception to this principle are discussed in Para 11, 12, & 14)

2. Effect of Prior Period Modified Report [Para 11,A.3-A.5]:

- ✚ If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is **unresolved**, the auditor shall **modify** the auditor's opinion on the current period's FS.
- ✚ In the **Basis for Modification paragraph** in the auditor's report, the auditor shall either:
 - **Refer to both** the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the **effects** or possible effects of the matter on the **current period's** figures are **material**; or
 - In **other cases**, explain that the audit **opinion** has been **modified** because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.

3. Prior Period Material Mis-statements [Para 12 & A.6]:

If the auditor obtains audit evidence that a material misstatement exists in the prior period FS on which an unmodified opinion has been previously issued, the auditor shall

- ✚ Verify whether the **misstatement** has been **dealt with as required** under the applicable financial reporting framework.
- ✚ If that is not the case, the auditor shall express a **qualified opinion or an adverse opinion** in the auditor's report on the current period FS, modified with respect to the corresponding figures included therein.

4. Prior Period FS Audited by a Predecessor Auditor [Para 13 & A.7]:

If the FS of the prior period were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures and decides to do so, the auditor **shall state** in an **Other Matter paragraph** in the auditor's report:

- ✚ That the FS of the prior period were **audited by the predecessor** auditor;
- ✚ The **type of opinion** expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
- ✚ The **date** of that report.

5. Prior Period FS Not Audited:

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

AUDIT REPORTING FOR COMPARATIVE FS

1. **Basic Principle:** When comparative FS are presented, the auditor's opinion shall refer to each period for which FS are presented and on which an audit opinion is expressed.

2. **Difference in Opinion:**

When reporting on prior period FS in connection with the current period's audit, if the auditor's opinion on such prior period FS **differs** from the **opinion** the auditor **previously expressed**, the auditor shall **disclose the substantive reasons** for the different opinion in an Other Matter paragraph in accordance with SA 706

3. **Prior Period FS Audited by a Predecessor Auditor:**

- a. If the FS of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's FS, the auditor shall state in an Other Matter paragraph:

- ✚ That the FS of the prior period were **audited** by a predecessor auditor;
- ✚ The **type of opinion** expressed by the predecessor auditor and, if the opinion was modified, the **reasons** therefore; and
- ✚ The **date** of that report,

Unless the predecessor auditor's report on the prior period's FS is revised with the FS.

- b. **Effect of Prior Period Material Mis-statements:**

- ✚ If the auditor concludes that a material misstatement exists that affects the prior period FS on which the predecessor auditor had previously reported without modification, the auditor shall communicate the misstatement with the appropriate level of management and those charged with governance and request that the predecessor auditor be informed.
- ✚ If the prior period FS are amended, and the predecessor auditor agrees to issue a new auditor's report on the amended FS of the prior period, the auditor shall report only on the current period.

4. **Prior Period FS Not Audited**

- ✚ If the prior period FS were not audited, the auditor shall state in an Other Matter paragraph that the comparative FS are unaudited.
- ✚ Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's FS.

**SA-720 THE AUDITOR'S RESPONSIBILITY IN RELATION TO OTHER INFORMATION IN DOCUMENTS
CONTAINING AUDITED FINANCIAL STATEMENTS**

OBJECTIVE OF SA 720

The objective of the auditor is to respond appropriately when documents containing audited FS and the auditor's report thereon include **other information that could undermine the credibility** of those FS and the auditor's report.

READING OTHER INFORMATION

The auditor shall:

1. Read other information **to identify material inconsistencies** with the audited FS.
2. Make **appropriate arrangements with management** or those charged with governance to obtain the other information prior to the date of the auditor's report

MATERIAL INCONSISTENCIES

If on reading the other information, the auditor identifies a material inconsistency; the auditor shall determine whether the **audited FS** or the other information needs to be **revised**. Material Inconsistencies Identified in Other Information shall be dealt as under:

Situation	Prior to the Date of the Auditor's Report	Subsequent to the Date of the Auditor's Report
When revision of the audited FS is necessary and management refuses to make the revision	The auditor shall modify the opinion in accordance with SA 705.	The auditor shall follow the relevant requirements in SA 560
When revision of the other information is necessary and management refuses to make the revision	The auditor shall communicate this matter to those charged with governance ✚ Include in the auditor's report an Other Matter(s) paragraph describing the material inconsistency or ✚ Where withdrawal is legally permitted, withdraw from the engagement	The auditor shall notify those charged with governance of the auditor's concern regarding the other information and take any further appropriate action.
When revision of the other information is necessary and management agrees to make the revision		The auditor shall carry out the procedures necessary under the circumstances

MATERIAL MISSTATEMENTS OF FACT

1. Discussion with Management:

If, on reading the other information for the purpose of identifying material inconsistencies becomes aware of a material misstatement, He shall **discuss the matter with management**.

2. Consultation with Qualified Third Party:

When, following such discussion, the Auditor Still considers that there is an apparent material misstatement of fact, He shall request management to **consult with a qualified third party** & shall consider the advice received.

3. Reporting and Further action:

When the Auditor concludes that there is a material misstatement of fact in the other information which management refuses to correct, the auditor shall **notify TCWG** of the auditor's concern regarding the other information and **take any further appropriate action**.