

8. Audit Report

Important Point of this chapter

1. Practical question

The Auditor's report on Financial Statements

As per SA 700, the auditor's report includes the following basic elements, orderly, in the following layout:

1. Title
2. Addresses
3. Introductory paragraph
 - Identify the entity whose financial statements have been audited;
 - Stated that the financial statements have been audited;
 - Identify the title of each statement that comprises the financial statements;
 - Refer to the summary of significant accounting policies and other explanatory information; and
 - Specify the date or period covered by each financial statement comprising the financial statements.
4. Management's responsibility for the statements:
5. Auditor's Responsibility:
 - The auditor's report shall state that the audit was conducted in accordance with standard on auditing issued by the ICAI. The auditor's report shall also explain that those standard require that the auditor comply with ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement
6. Auditor's opinion
 - When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:
 - a. The financial statements present fairly, in all material respects, in accordance with the applicable financial reporting framework or;
 - b. The financial statements give a true and fair view of in accordance with the applicable financial reporting framework.
 - When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
7. Other reporting responsibilities
8. Signature
9. Date of auditor's report: the auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence
10. Place of signature

Type of modification to the auditor's opinion

1. Qualified opinion: the auditor shall express a qualified opinion when
 - a. The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
 - b. The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.
2. Adverse opinion: the auditor shall express opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
3. Disclaimer of opinion: the auditor shall disclaim 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 effect on the financial statements of undetected misstatements, if any could be material and pervasive to the financial statements.

Form and content of the auditor's Report when the opinion is modified

Basis for modification of paragraph: when the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by the SA 70, include a paragraph in the auditor's report that provides a description of the matter giving rise to modification.

- The auditor shall place this paragraph immediately before the opinion paragraph in the auditor's report and use the heading 'basis for qualified opinion' as appropriate.
- If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements, the auditor shall include in the basis for modification paragraph a description and qualification of the financial effects of the misstatement, unless impracticable.
- If there is a material misstatement of the financial statements that relates to narrative disclosures, the auditor shall include in the basis for modification paragraph an explanation of how the disclosure is misstated.
- If the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor shall include in the basis for modification paragraph, the reasons for that inability.
- If there is a material misstatement of the financial statements that relates to the non-disclosure of information required to be disclosed, the auditor shall:
 - i. Discuss the non-disclosure with those charged with governance;
 - ii. Describe the basis for modification paragraph the nature of the omitted information; and
 - iii. Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information.

Opinion Paragraph

When the auditor modifies the opinion, the auditor shall use the heading 'qualified opinion', adverse opinion' or disclaimer of opinion' as appropriate, for the opinion paragraph.

- When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor shall use the corresponding phrase 'except for the possible effects of the matter(s)....' For the modified opinion.
- When auditor disclaims an opinion due to obtain sufficient appropriate audit evidence, the auditor shall state in the opinion paragraph that:
 - i. Because of the significance of the matter(s) described in the basis for disclaimer of opinion paragraph, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion; and
 - ii. Accordingly, the auditor does not express an opinion on the financial statements.

Distinction between Audit report and Certificate

- The term report is used where an expression of opinion is involved. The term certificate is preferable where the auditor comments on or verifies facts such as a verification of investment by inspection or the checking of ballot paper on a poll in a company meeting.
- Under the companies act, 1956 a number of situation are there where an auditor is required to issue a certificate rather than audit report.

Audit report and certificates for special purpose

Scope

1. Financial statements which are prepared in addition to general purpose financial statements;
2. Specified elements, accounts or items of financial statements;
3. Compliance with requirements of any agreement or statute or regulation;
4. Financial information given in special purpose formats or schedules;
5. Compliance of statistics or ascertainment of basic figures.

Responsibility: the primary responsibility for the contents of special purpose statement rests with the enterprise and this would be evidenced by a suitable declaration or authentication by the management on the face of the statement.

Scope of reporting auditor's Function:

1. Clear understanding of the scope and nature of the terms of his assignment.
2. When reporting auditor requires special technical knowledge for certain work and if he has no such knowledge than he can clearly state his limitation in the report of certificate.
3. If he avail expert help for work than he have to mention that he rely on the expert work.

Contents of reports and certificates:

1. Specific elements, accounts or items covered by the report or certificate should clearly identify and indicated.
2. The report or certificate should indicate the manner in which the audit was conducted.
3. If the report or certificate is subject to any limitation in scope, such limitation should be clearly mentioned.
4. Assumptions on which the special purpose statements are based should be cleanly indicated if the are fundaments to the appreciation of statement.
5. Reference to the information and explanation obtained should be included in the report or certificate.
6. The title of the report or certificate should clearly indicate his nature.
7. If the special purpose statement is based on general purpose financial statements, the report or certificate should obtain a reference to such statements.

8. Where a report requires the interpretation of statute, the reporting auditor should clearly indicate the fact that he is merely expressing his opinion in the matter.
9. An audit report or certificate should ordinarily be a self-contained document. It means its not given any reference for particular matter in report.
10. The reporting auditor should clearly indicate his report or certificate to the extent of responsibility which assumes.