Section – III

Standard on Auditing (SA) 700 (Revised) Forming an Opinion and Reporting on Financial Statements

1. Effective Date –

This SA is effective for audits of financial statements for periods beginning on or after **April 1, 2011**.

2. Scope of this SA –

This Standard on Auditing (SA) deals with –

i. The auditor's responsibility to form an opinion on the financial statements.

ii. The form and content of the auditor's report issued as a result of an audit of financial statements.

Note → This SA is written in the context of a complete set of general purpose financial statements. This SA promotes consistency in the auditor's report which in turn helps to promote the user's understanding and to identify unusual circumstances when they occur.

3. Objectives –

The objectives of the auditor are to –

(a) Form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and

(b) Express clearly that opinion through a written report that also describes the basis for the opinion.

4. Definitions –

For purposes of the SAs, the following terms have the meanings attributed below –

(a) **General purpose financial statements –** Financial statements prepared in accordance with a general purpose framework. Reference to "financial statements" in this SA means "a complete set of general purpose financial statements, including the related notes" comprising a summary of significant accounting policies and other explanatory information.

(b) **General purpose framework –** A financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be –

- **Fair Presentation Framework** - a financial reporting framework that requires compliance with the requirements of the framework and –

  (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework;

  OR

  (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements.

- **Compliance Framework** - a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.

(c) **Unmodified opinion –** The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

5. Requirements

i) **Forming an Opinion on the Financial Statements -** The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework by obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

That conclusion shall take into account –

(a) Whether sufficient appropriate audit evidence has been obtained (SA 330);

(b) Whether uncorrected misstatements are material, individually or in aggregate (SA 450);

(c) Whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework.

(d) Whether in view of the requirements of the applicable financial reporting framework – **(FS Evaluation)**

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

(e) When the financial statements are **prepared in accordance** with a fair presentation framework, the evaluation required by paragraphs (c) and (d) shall also include whether the financial statements achieve fair presentation by considering – **(Fair Presentation)**

- The overall presentation, structure and content of the financial statements; and
- Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.

(f) Whether the financial statements **adequately** refer to or describe the applicable financial reporting framework.

- ✓ A description that the financial statements are prepared in accordance with a particular applicable financial reporting framework is appropriate only if the financial statements comply with all the requirements of that framework that are effective during the period covered by the financial statements.
- ✓ In some cases, the financial statements may represent that they are prepared in accordance with two financial reporting frameworks (e.g., the national framework and International Financial Reporting Standards).
- ✓ This may be because management is required, or has chosen, to prepare the financial statements in accordance with both frameworks, in which case both are applicable financial reporting frameworks.
- ✓ Such description is appropriate only if the financial statements comply with each of the frameworks individually.
- ✓ To be regarded as being prepared in accordance with both frameworks, the financial statements need to comply with both frameworks simultaneously and without any need for reconciling statements.

ii) Form of Opinion –

S. No.	Conditions	Type of Opinion / Course of Action
1.	When the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework	Unmodified opinion

2.	**When the auditor** – (a) Concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or (b) Is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement,	Modify the opinion in auditor's report as per SA 705
3.	When financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation.	The auditor shall discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, shall determine whether it is necessary to modify the opinion in the auditor's report in accordance with SA 705
4.	When the financial statements are prepared in accordance with a compliance framework.	The auditor is not required to evaluate whether the financial statements achieve fair presentation. (However, if in extremely rare circumstances the auditor concludes that such financial statements are misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report.)

iii) Auditor's Report – [8 Marks, Nov. 2004]

- The auditor's report shall be **in writing.**
- **Title** - The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor. For Eg. – **"Independent Auditor's Report"**
- **Addressee** - The auditor's report shall be addressed as required by the circumstances of the engagement. The law or regulation applicable to the entity often specifies to whom the auditor's report is to be addressed. The auditor's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being audited.
- **Introductory Paragraph** - The introductory paragraph in the auditor's report shall –
  (a) Identify the entity whose financial statements have been audited;
  (b) State that the financial statements have been audited;
  (c) Identify the title of each statement that comprises the financial statements;
  (d) Refer to the summary of significant accounting policies and other explanatory information; and
  (e) Specify the date or period covered by each financial statement comprising the financial statements.

Note → When the auditor is aware that the audited financial statements will be included in a document that **contains other information**, such as an annual report, the auditor may consider, if the form of presentation allows, **identifying the page numbers on which the audited financial statements are presented.** This helps users to identify the financial statements to which the auditor's report relates.

- **Management's Responsibility for the Financial Statements** - This section of the auditor's report describes the responsibilities of those in the organisation that are responsible for the preparation of the financial statements. The auditor's report need not refer specifically to "management", but shall use the term that is appropriate in the context of the legal and/or regulatory framework applicable to the entity. In case of some entities, the appropriate reference may be to those charged with governance. The auditor's report shall describe management's responsibility for the preparation of the financial statements in the manner in which that responsibility is described in the terms of the audit engagement.

Where the financial statements are prepared in accordance with a fair presentation framework, the explanation of management's responsibility for the financial statements in the auditor's report shall refer to "the preparation and fair presentation of these financial statements" or "the preparation of financial statements that give a true and fair view", as appropriate in the circumstances.

- **Auditor's Responsibility** –

1. **Responsibility** – The auditor's report shall include a section with the heading "Auditor's Responsibility" stating that the **responsibility** of the auditor is **to express an opinion** on the financial statements based on the audit.

2. **Compliance with SA –** The auditor's report shall state that the audit was **conducted in accordance with Standards on Auditing** issued by the Institute of Chartered Accountants of India.

3. **Compliance with Ethics –** The auditor's report shall also explain that those Standards 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.

4. **Description of Audit –** The auditor's report shall describe an audit by stating that –

   (a) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements;

   (b) 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 entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control; and

   (c) An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements.

5. **Fair Presentation –** Where the financial statements are prepared in accordance with a fair presentation framework, the description of the audit in the auditor's report shall refer to "the entity's preparation and fair presentation of the financial statements" or "the entity's preparation of financial statements that give a true and fair view", as appropriate in the circumstances.

6. **Audit Evidence –** The auditor's report shall state whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

- **Auditor's Opinion -** The auditor's report shall include a section with the heading "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].
- ✓ **Identification of applicable FRF –** If the reference to the applicable financial reporting framework, in the auditor's opinion, is not to the Accounting Standards promulgated by the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) or Accounting Standards, notified by the Central Government by publishing the same as the Companies (Accounting Standards) Rules, 2006, or the Accounting Standards for Local Bodies promulgated by the Committee on Accounting Standards for Local Bodies (CASLB) of the Institute of Chartered Accountants of India, as may be applicable, the auditor's opinion shall identify the jurisdiction of origin of the framework.
- ✓ SA 210 (Revised) explains that, in some cases, law or regulation prescribes the wording of the auditor's report (which in particular includes the auditor's opinion) in terms that are significantly different from the requirements of SAs. In these circumstances, SA 210 (Revised) requires the auditor to evaluate –

  (a) Whether users might misunderstand the assurance obtained from the audit of the financial statements and, if so,

  (b) Whether additional explanation in the auditor's report can mitigate possible misunderstanding.
- ✓ If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, SA 210 (Revised) requires the auditor not to accept the audit engagement, unless required by law or regulation to do so.
- ✓ In accordance with SA 210 (Revised), an audit conducted in accordance with such law or regulation does not comply with SAs. Accordingly, the auditor does not include any reference in the auditor's report to the audit having been conducted in accordance with Standards on Auditing, "Present fairly, in all material respects" or "give a true and fair view"

➢ **Other Reporting Responsibilities -** If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibility under the SAs to report on the financial statements, these other reporting responsibilities shall be addressed in a separate section in the auditor's report that shall be sub-titled "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section. In case of some entities, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibility under the SAs to report on the financial statements. In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities within the auditor's report on the financial statements. In other cases, the auditor may be required or permitted to report on them in a separate report. If the auditor's report contains a separate section on other reporting responsibilities, the headings, statements and explanations referred to in aforesaid paragraphs shall be under the sub-title "Report on the Financial Statements." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Financial Statements."

➢ **Signature of the Auditor -** The auditor's report shall be signed by the auditor in his personal name along with his membership no. allotted by ICAI. Where the firm is appointed as the auditor, the report is signed in the personal name of the auditor and in the name of the audit firm.

➢ **Date of the Auditor's Report -** The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that –

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

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

The date of the auditor's report informs the user of the auditor's report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date.

➢ **Place of Signature -** The auditor's report shall name specific location, which is ordinarily the city where the audit report is signed.

iv) Auditor's Report Prescribed by Law or Regulation - If the auditor is required by any law or regulation to use a specific layout or wording of the auditor's report, the auditor's report shall refer to Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements –

(a) A title;

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

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

(d) A description of the responsibility of management (or other appropriate term) for the preparation of the financial statements;

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

- ✓ A reference to Standards on Auditing and the law or regulation; and
- ✓ A description of an audit in accordance with those Standards;

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

(g) The auditor's signature;

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

(i) The place of signature.

v) Auditor's Report for Audits Conducted in Accordance with Both Auditing Standards issued by the Institute of Chartered Accountants of India and International Standards on Auditing –

- **Situation –**An auditor may be required to conduct an audit in accordance with the auditing Standards issued by the Institute of Chartered Accountants of India (the "national auditing standards"), but may additionally have complied with the International Standards on Auditing (ISAs) in the conduct of the audit. If this is the case, the auditor's report may refer to International Standards on Auditing in addition to the national auditing standards, but the auditor shall do so only if –

(a) There is **no conflict** between the requirements in the national auditing standards and those in ISAs that would lead the auditor –

(i) To form a different opinion, or

(ii) Not to include an Emphasis of Matter paragraph that, in the particular circumstances, is required by ISAs; and

(b) The auditor's report includes, at a minimum, each of the elements set out in paragraph – (iv) points (a)-(i) when the auditor uses the layout or wording specified by the national auditing standards.

(c) When the auditor's report refers to both the national auditing standards and International Standards on Auditing, the auditor's report shall identify the national auditing standards being the Standards on Auditing issued by the Institute of Chartered Accountants of India.

vi) Supplementary Information Presented with the Financial Statements –

- **Need –** If supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, (e.g. to enhance a User's understanding of applicable FRF).

- **Auditor's Duties –**

(a) The auditor shall evaluate whether such supplementary information is clearly differentiated from the audited financial statements.

(b) If such supplementary information is not clearly differentiated from the audited financial statements, the auditor shall ask management to change how the unaudited supplementary information is presented. This can be done by –

- ✓ **Removing any cross references** from the financial statements to unaudited supplementary schedules or unaudited notes so that the demarcation between the audited and unaudited information is sufficiently clear.

- ✓ **Placing the unaudited supplementary information outside of the financial statements** or, if that is not possible in the circumstances, at a minimum, place the unaudited notes together at the end of the required notes to the financial statements and clearly label them as unaudited. Unaudited notes that are intermingled (combine) with the audited notes can be misinterpreted as being audited.

(c) If management refuses to do so, the auditor shall **explain in the auditor's report** that such supplementary information has **not been audited.** The **fact that** supplementary information is **unaudited does not relieve the auditor of the responsibility** to read that information to identify material inconsistencies with the audited financial statements. The auditor's responsibilities with respect to unaudited supplementary information are consistent with those described in SA 720.

(d) Supplementary information that is not required by the applicable financial reporting framework but is nevertheless an integral part of the financial statements because it cannot be clearly differentiated from the audited financial statements due to its nature and how it is presented shall **be covered by the auditor's opinion.**

(e) Supplementary information that is covered by the auditor's opinion does not need to be specifically referred to in the introductory paragraph of the auditor's report when the reference to the notes in the description of the statements that comprise the financial statements in the introductory paragraph is sufficient.

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Appendix

Auditor Report Format

Illustration 1 – Circumstances include the following –

- Audit of a complete set of separate general purpose financial statements of a company prepared under the Companies Act, 1956 financial reporting framework, which is a fair presentation framework.
- The terms of the audit engagement reflect description of management's responsibility for the financial statements in SA 210 (Revised).
- The report is unmodified and does not include either an Emphasis of Matter paragraph or an Other Matter(s) paragraph.
- In addition to the audit of financial statements, the auditor has other reporting responsibilities required under the Companies Act, 1956 and/or other regulatory requirements.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making 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, **but not**

for the purpose of expression an opinion on the effectiveness of the Companies internal control (Newly Interested Line). 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];

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

   (d) In our opinion, the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement comply with the Accounting Standards referred to in sub-section (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

Place of Signature **Firm's Registration Number**

Signature

Date **(Name of the Member Signing the Audit Report)**

(Designation)

Membership Number

Standard on Auditing (SA) 705

Modifications to the Opinion in the Independent Auditor's Report

1. Effective Date

This SA is effective for audits of financial statements for periods beginning on or after **April 1, 2011**.

2. Scope of this SA

This Standard on Auditing (SA) deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700 (Revised), the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

3. Types of Modified Opinions

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

(a) The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and

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

4. Objective

The objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that are necessary when –

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

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

5. Definitions

For purposes of the SAs, the following terms have the meanings attributed below –

(a) Pervasive –

- A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence.
- Pervasive effects on the financial statements are those that, in the auditor's judgment –
    1. Are **not confined to specific elements**, accounts or items of the financial statements;
    2. If so confined, represent or could represent a **substantial proportion** of the financial statements; o
    3. In relation to disclosures, are **fundamental** to users' understanding of the financial statements.

(b) Modified opinion – A qualified opinion, an adverse opinion or a disclaimer of opinion.

6. Requirements

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

The auditor shall modify the opinion in the auditor's report when –

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

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

Note → SA 450 defines a misstatement as a difference between the amounts, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework.

Accordingly, a material misstatement of the financial statements may arise in relation to –

(a) The appropriateness and application of the selected accounting policies; or

(b) The appropriateness or adequacy of disclosures in the financial statements.

Note → The auditor's **inability to obtain sufficient appropriate audit evidence** (also referred to as a limitation on the scope of the audit) may arise from –

(a) Circumstances **beyond the control** of the entity;

(b) Circumstances relating to **the nature or timing of the auditor's work**; or

(c) **Limitations imposed by management.**

ii) 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 sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

- **Qualified Opinion** - The auditor shall express a qualified opinion when:
  1. The auditor, having obtained sufficient appropriate audit evidence, concludes that **misstatements**, individually or in the aggregate, **are material, but not pervasiv**e, to the financial statements; or
  2. 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.

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

- **Disclaimer of Opinion** –

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

  (b) 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.

iii) Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement –

(a) 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 financial statements, the auditor shall **request** that management **remove the limitation.**

(b) If management refuses to remove such 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.

(c) If the auditor is **unable to obtain sufficient appropriate audit evidence**, the auditor shall determine the implications as follows –

1. If the auditor concludes that the **possible effects** on the financial statements of undetected misstatements, if any, **could be material but not pervasive**, the auditor shall **qualify** the opinion; or

2. If the auditor concludes that the **possible effects** on the financial statements of undetected misstatements, 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 –

(i) **Resign** from the audit, where practicable and not prohibited by law or regulation (If the auditor so resigns, he shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion); or

(ii) If resignation from the audit before issuing the auditor's report is not practicable or possible, **disclaim an opinion** on the financial statements.

iv) Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion –

Unmodified Opinion on Single FS/Specific Items not Possible –

- When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements 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 financial statement or one or more specific elements, accounts or items of a financial statement.
- 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 financial statements as a whole.

v) Form and Content of the Auditor's Report When the Opinion Is Modified

1. ***Basis for Modification Paragraph*** **–** When the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by the SA 700 (Revised), include a paragraph in the auditor's report that provides a description of the matter giving rise to the modification.

2. ***Placement & Heading*** **–** The auditor shall place this paragraph immediately before the opinion paragraph in the auditor's report and use the heading "Basis for Qualified Opinion", "Basis for Adverse Opinion", or "Basis for Disclaimer of Opinion", as appropriate.

3. ***Quantification*** **–**

(a) If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures), the auditor shall include in the basis for modification paragraph a description and quantification of the financial effects of the misstatement, unless impracticable.

(b) If it is not practicable to quantify the financial effects, the auditor shall so state in the basis for modification paragraph.

4. **Narrative Disclosure –** 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 disclosures are misstated.

5. **Non – Disclosure of Information –** 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 –

(a) Discuss the non-disclosure with those charged with governance;

(b) Describe in the basis for modification paragraph the nature of the omitted information; and

(c) 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.

6. **Inability to obtain evidence** – 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.

7. **In case of Adverse Opinion/ Disclaimer** – Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the auditor shall describe in the basis for modification paragraph the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof.

vi) Form and Content of Opinion Paragraph, in case of Modification

1. **Heading** – When the auditor modifies the audit opinion, the auditor shall use the heading "Qualified Opinion", "Adverse Opinion", or "Disclaimer of Opinion", as appropriate, for the opinion paragraph.

2. **Qualified Opinion – Form and Contents** – When the auditor expresses a qualified opinion due to a material misstatement in the financial statements, the auditor shall state in the opinion paragraph that, in the auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion paragraph –

   (a) The financial statements present fairly, in all material respects (or give a true and fair view) in accordance with the applicable financial reporting framework when reporting in accordance with a fair presentation framework; or

   (b) The financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework when reporting in accordance with a compliance framework.

   Note → **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 the auditor expresses a qualified opinion, it would not be appropriate to use phrases such as "with the foregoing explanation" or "subject to" in the opinion paragraph as these are not sufficiently clear or forceful.**

3. **Adverse Opinion – Form and Content** – When the auditor expresses an adverse opinion, the auditor shall state in the opinion paragraph that, in the auditor's opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion paragraph –

   (a) The financial statements do not present fairly (or give a true and fair view) in accordance with the applicable financial reporting framework when reporting in accordance with a fair presentation framework; or

   (b) The financial statements have not been prepared, in all material respects, in accordance with the applicable financial reporting framework when reporting in accordance with a compliance framework.

4. **Disclaimer of Opinion – Form and Content** – When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall state in the opinion paragraph that –

   (a) 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,

   (b) The auditor does not express an opinion on the financial statements.

vii) Description of Auditor's Responsibility–

(a) **When the Auditor Expresses a Qualified or Adverse Opinion** When the auditor expresses a qualified or adverse opinion, the auditor shall amend the description of the auditor's responsibility to state that the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's modified audit opinion.

(b) **When the Auditor Disclaims an Opinion –**

- When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the introductory paragraph of the auditor's report to state that the auditor was engaged to audit the financial statements.
- The auditor shall also amend the description of the auditor's responsibility and the description of the scope of the audit to state only the following –

  "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".

viii) Communication with Those Charged with Governance –

When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the proposed wording of the modification, in order to enable –

(a) The auditor to give notice to those charged with governance of the intended modification(s) and the reasons (or circumstances) for the modification(s);

(b) The auditor to seek the concurrence of those charged with governance regarding the facts of the matter(s) giving rise to the expected modification(s), or to confirm matters of disagreement with management as such; and

(c) Those charged with governance to have an opportunity, where appropriate, to provide the auditor with further information and explanations in respect of the matter(s) giving rise to the expected modification(s).

....

Appendix
Qualified Report

Illustration 1 – Circumstances for Qualified Report include the following –

- Audit of a complete set of separate general purpose financial statements of a company prepared under the Companies Act, 1956 financial reporting framework.
- The terms of the audit engagement reflect description of management's responsibility for the financial statements in SA 210 (Revised).
- Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements. The audit opinion is qualified for the misstatement.
- In addition to the audit of financial statements, the auditor has other reporting responsibilities required under the Companies Act, 1956 and/or other regulatory requirements.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Financial Statements

We have .... summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible .... free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express................ basis for our audit opinion.

Basis for Qualified Opinion

The Company's inventories are carried in the Balance Sheet at ₹ 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 ₹ XXX would have been required to write the inventories down to their net realisable value. Accordingly, cost of sales would have been increased by ₹ XXX, and income tax, net profit and shareholders' funds would have been reduced by ₹ XXX, Rs. XXX and ₹ 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 –

(d) In the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 20XX;
(e) In the case of the Profit and Loss Account, of the profit/ loss for the year ended on that date; and
(f) 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 –

3. As required by .... paragraphs 4 and 5 of the Order.
4. As required by section 227(3) of the Act, we report that –
   (g) We have obtained .... our audit;
   (h) In our opinion .... not visited by us];
   (i) The Balance Sheet, ... visited by us];
   (j) 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;
   (k) On the basis .... 274 of the Companies Act, 1956.
   (l) Since the .... due and payable by the Company.

For XYZ and Co.
Chartered Accountants

Place of Signature **Firm's Registration Number**

Signature

Date **(Name of the Member Signing the Audit Report)**
(Designation)

Membership Number

Adverse Report

Illustration 2 – Circumstances for Adverse Report include the following –

- Audit of a complete set of consolidated general purpose financial statements of a parent company prepared under accounting principles generally accepted in India (as required for compliance with SEBI's regulatory requirement).
- The terms of the group audit engagement reflect description of management's responsibility for the financial statements in SA 210 (Revised).
- The financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the financial statements. The effects of the misstatement on the financial statements have not been determined because it was not practicable to do so. An adverse audit opinion is given under the circumstances.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Financial Statements
We have .... summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible .... free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express................ basis for our audit opinion.

Basis for Adverse Opinion
As explained in Note X, the Company has not consolidated the financial statements of subsidiary ABC 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 ABC 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 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 .... paragraphs 4 and 5 of the Order.

2. As required by section 227(3) of the Act, we report that –
   (a) We have obtained .... our audit;
   (b) In our opinion .... not visited by us];
   (c) The Balance Sheet, ... visited by us];
   (d) 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;
   (e) On the basis .... 274 of the Companies Act, 1956.
   (f) Since the .... due and payable by the Company.

For XYZ and Co.

Chartered Accountants

Place of Signature **Firm's Registration Number**

Signature

Date **(Name of the Member Signing the Audit Report)**

(Designation)

Membership Number

....

Disclaimer of Opinion for Single Element of the FS

Illustration 3 – Circumstances for Disclaimer of Opinion include the following –

- Audit of a complete set of separate general purpose financial statements of a company prepared under the Companies Act, 1956 financial reporting framework.
- The terms of the audit engagement reflect description of management's responsibility for the financial statements in SA 210 (Revised).
- The auditor was unable to obtain sufficient appropriate audit evidence about a single element of the financial statements. That is, the auditor was unable to obtain audit evidence about the financial information of a joint venture investment that represents over 90% of the Company's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements. A disclaimer of audit opinion is given in the circumstances.
- In addition to the audit of financial statements, the auditor has other reporting responsibilities required under the Companies Act, 1956 and/or other regulatory requirements.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Financial Statements

We have .... summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible .... 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 in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Because of the matter 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.

Basis for Disclaimer of Opinion

The Company's investment in its joint venture ABC Company is carried at ₹ 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 ABC Company. As a result, we were unable to determine whether any adjustments were necessary in respect of the Company's proportional share of ABC Company's assets that it controls jointly, its proportional share of ABC Company's liabilities for which it is jointly responsible, its proportional share of ABC 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 .... 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 effect 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, ... 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 with the accounting standards referred to in sub-section (3C) of section 211 of the Act;
   (e) On the basis........... Section 274 of the Act.
   (f) Since the............. no cess is due and payable by the Company.

For XYZ and Co.
Chartered Accountants
Place of Signature **Firm's Registration Number**
Signature
Date **(Name of the Member Signing the Audit Report)**
(Designation)
Membership Number

Disclaimer of Opinion for Multi Element of the FS

Illustration 4 – Circumstances for Disclaimer of Opinion include the following –

- Audit of a complete set of separate general purpose financial statements of a company prepared under the Companies Act, 1956 financial reporting framework.
- The terms of the audit engagement reflect description of management's responsibility for the financial statements in SA 210 (Revised).
- The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. That is, the auditor was unable to obtain audit evidence about the entity's inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements. A disclaimer of audit opinion is given in the circumstances.
- In addition to the audit of financial statements, the auditor has other reporting responsibilities required under the Companies Act, 1956 and/or other regulatory requirements.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Financial Statements – **See Illustration 1 above**

Management's Responsibility for the Financial Statements – **See Illustration 1 above**

Auditor's Responsibility – **See Illustration 3 above**

Basis for Disclaimer of Opinion

We were appointed as auditors of the Company after March 31, 20XX and thus could not observe the counting of physical inventories at the beginning and end of the year. Accordingly, we were unable to satisfy ourselves by alternative means concerning the inventory quantities held at December 31, 20X0 and March 31, 20X1 which are stated in the Balance Sheet at ₹ XXX and ₹ XXX, respectively.

In addition, the introduction of a new computerised accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable. As of the date of our audit report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the Balance Sheet at a total amount of ₹ XXX as at March 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the Statement of Profit and Loss and Cash Flow Statement.

Disclaimer of Opinion

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

Report on Other Legal and Regulatory Requirements – **See Illustration 4 above**

For XYZ and Co.
Chartered Accountants
Place of Signature **Firm's Registration Number**

Signature

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

....

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

1. Effective Date

This SA is effective for audits of financial statements for periods beginning on or after **April 1, 2011.**

2. Scope of this SA/ Objectives of the Auditor

This Standard on Auditing (SA) deals with additional communication in the auditor's report when the auditor considers it necessary to draw users' attention

- To any matter presented or disclosed in the financial statements which may be **fundamental** to users' understanding of the financial statements;
- or any matter or matters other than those presented or disclosed in the financial statements that are **relevant** to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

3. Definitions

For the purposes of the SAs, the following terms have the meanings attributed below –

(a) **Emphasis of Matter paragraph** – A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

(b) **Other Matter paragraph** – A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

4. Requirements

i) Emphasis of Matter Paragraphs in the Auditor's Report –

- **Meaning –** If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgement, is of such importance that it is **fundamental** to user's understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided the auditor has obtained sufficient appropriate audit evidence that the matter is **not** materially misstated in the financial statements. Such a paragraph shall refer **only** to information presented or disclosed in the financial statements.

ii) When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall–

(a) Include it immediately after the Opinion paragraph in the auditor's report;

(b) Use the heading "Emphasis of Matter", or other appropriate heading;

(c) Include in the paragraph a clear reference to the matter being emphasised and to where relevant disclosures that fully describe the matter can be found in the financial statements; and

(d) Indicate that the auditor's opinion is not modified in respect of the matter emphasised.

iii) The inclusion of an Emphasis of Matter paragraph in the auditor's report *does not affect* the auditor's opinion. An Emphasis of Matter paragraph is *not* a substitute for either –

(a) The auditor expressing a qualified opinion or an adverse opinion, or disclaiming an opinion, when required by the circumstances of a specific audit engagement; or

(b) Disclosures in the financial statements that the applicable financial reporting framework requires management to make.

iv) Other Matter Paragraphs in the Auditor's Report –

- **Meaning –** If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of – (a) the audit, or (b) the auditor's responsibilities or (c) the auditor's report **AND**
- This is not prohibited by law or regulation,
- **Heading –** The auditor shall do so in a paragraph in the auditor's report, with the heading "Other Matter", or other appropriate heading.
- **Place –** The auditor shall include this paragraph immediately after the Opinion paragraph and any Emphasis of Matter paragraph, or elsewhere in the auditor's report if the content of the Other Matter paragraph is relevant to the Other Reporting Responsibilities section.

- **Effect of Law, Regulation, etc. –** Law, regulation or generally accepted practice in a jurisdiction may require or permit the auditor to elaborate on matters that provide further explanation of the auditor's responsibilities in the audit of the financial statements or of the auditor's report thereon. Where relevant, one or more sub-headings may be used that describe the content of the Other Matter paragraph.

v) Content of Other Matter Paragraph

(a) The content of an Other Matter paragraph reflects clearly that such other matter is **not** required to be presented and disclosed in the financial statements.

(b) An Other Matter paragraph does not include information that the auditor is prohibited from providing by law, regulation or other standards, for example, ethical standards relating to confidentiality of information.

(c) An Other Matter paragraph also does not include information that is required to be provided by management.

vi) Inclusion in Auditor's Report

(a) The placement of an Other Matter paragraph depends on the nature of the information to be communicated.

(b) When an Other Matter paragraph is included to draw users' attention to a matter relevant to their understanding of the audit of the financial statements, the paragraph is included immediately after the Opinion paragraph and any Emphasis of Matter paragraph.

(c) When an Other Matter paragraph is included to draw users' attention to a matter relating to Other Reporting Responsibilities addressed in the auditor's report, the paragraph may be included in the section sub-titled "Report on Other Legal and Regulatory Requirements".

(d) Alternatively, when relevant to all the auditor's responsibilities or users' understanding of the auditor's report, the Other Matter paragraph may be included as a separate section following the Report on the Financial Statements and the Report on Other Legal and Regulatory Requirements.

vii) Communication with Those Charged with Governance -

1. If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, the auditor shall communicate with those charged with governance regarding this expectation and the proposed wording of this paragraph.
2. Such Communication enables TCWG to make them aware of the nature of any specific matters that the auditor intends to highlight in the auditor's report, and provides them with an opportunity to obtain further clarification from the auditor where necessary.

....

Appendix

Emphasis of Matter Para

Illustration 1 – Circumstances include the following –

- Audit of a complete set of separate general purpose financial statements of a company prepared under the Companies Act, 1956 financial reporting framework.
- The terms of the audit engagement reflect description of management's responsibility for the financial statements in SA 210 (Revised).
- Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements. The audit opinion is qualified for the misstatement.
- There is uncertainty relating to a pending exceptional litigation matter. This is highlighted in the auditor's report by an Emphasis of Matter paragraph.
- In addition to the audit of financial statements, the auditor has other reporting responsibilities required under the Companies Act, 1956 and/or other regulatory requirements.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Financial Statements – **See Illustration 1 above of SA – 705**

Management's Responsibility for the Financial Statements – **See Illustration 1 above of SA – 705**

Auditor's Responsibility – **See Illustration 1 above of SA – 705**

Basis for Disclaimer of Opinion – **See Illustration 1 above of SA – 705**

Opinion – **See Illustration 1 above of SA – 705**

Emphasis of Matter

We draw attention to Note X to the financial statements which describe 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 – **See Illustration 1 above of 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

Other Matter Para

Illustration 2 – Circumstances include the following –

- Audit of a complete set of consolidated general purpose financial statements of a parent company prepared under accounting principles generally accepted in India, as required for compliance with SEBI's regulatory requirement, which is a fair presentation framework.
- The terms of the group audit engagement reflect description of management's responsibility for the financial statements in SA 210 (Revised).
- The report includes an Other Matter paragraph in respect of the auditor's responsibility in respect of subsidiaries not audited by him but which form part of the consolidated financial statements under report.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Financial Statements – **See Illustration 1 above of SA – 700**

Management's Responsibility for the Financial Statements – **See Illustration 1 above of SA – 700**

Auditor's Responsibility – **See Illustration 1 above of SA – 700**

Basis for Disclaimer of Opinion – **See Illustration 1 above of SA – 700**

Opinion –

In our opinion and to the best of our information and according to the explanations given to us and based on the consideration of the reports of the other auditors on the financial statements of the subsidiaries as noted below, 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.

Other Matter –

We did not audit the financial statements of certain subsidiaries, whose financial statements reflect total assets (net) of ₹ XXXX as at March 31, 20XX, and total revenues of ₹ XXXX and net cash outflows are amounting to ₹ 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
Place of Signature **Firm's Registration Number**
Signature
Date **(Name of the Member Signing the Audit Report)**
(Designation)
Membership Number

Standard on Auditing (SA) 710 (Revised) Comparative Information— Corresponding Figures and Comparative Financial Statements

1. Effective Date

This SA is effective for audits of financial statements for periods beginning on or after **April 1, 2011.**

2. Scope of this SA

This Standard on Auditing (SA) deals with the auditor's responsibilities regarding comparative information in an audit of financial statements. When the financial statements of the prior period have been audited by a predecessor auditor or were not audited, the requirements and guidance in SA 510 (Revised) regarding opening balances also apply.

3. The Nature of Comparative Information

Audit Approach – The nature of the comparative information that is presented in an entity's financial statements depends on the requirements of the applicable financial reporting framework. There are two different broad approaches to the auditor's reporting responsibilities in respect of such comparative information –

(a) **Corresponding figures -** For corresponding figures, the auditor's opinion on the financial statements refers to the current period only

(b) **Comparative financial statements -** For comparative financial statements, the auditor's opinion refers to each period for which financial statements are presented.

Note → The approach to be adopted is often specified by law or regulation but may also be specified in the terms of engagement.

4. Objectives

The objectives of the auditor are –

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

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

5. Definitions

For purposes of the SAs, the following terms have the meanings attributed below –

(a) **Comparative information –** The amounts and disclosures included in the financial statements in respect of one or more prior periods in accordance with the applicable financial reporting framework.

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

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

6. Requirements

i) Audit Procedures

1. **Basic Evaluation of Comparative Information –**

   (a) The auditor shall determine whether the financial statements **include** the comparative information required by the applicable financial reporting framework and whether such information is appropriately **classified.**

   (b) For this purpose, the auditor shall evaluate whether –

   i. The comparative information **agrees** with the amounts and other disclosures presented in the prior period; and

   ii. The accounting policies reflected in the comparative information are **consistent** with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately **presented and disclosed.**

2. **Additional Procedures in case of Material Misstatement** –

   (a) If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, the auditor shall perform such additional audit procedures as are necessary in the circumstances to obtain sufficient appropriate audit evidence to **determine whether a material misstatement exists.**

   (b) If the auditor had audited the prior period's financial statements, the auditor shall also follow the relevant requirements of SA 560 (Revised).

3. **Written Representation –** As required by SA 580 (Revised), the Auditor shall –

   (a) Request written representations for **all periods** referred to in the auditor's opinion.

   (b) Obtain a **Specific written representation** regarding any **Prior Period Item** that is separately disclosed in the current year's statement of profit and loss.

ii) Audit Reporting for Corresponding Figures –

1. **Basic Principle -** When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures because the auditor's opinion is on the current period financial statements as a whole, including the corresponding figures, (except in the following circumstance is discussed below)

2. **Effect of Prior Period Modified Report –**

If the Auditor's Report on the prior period, as previously issued, included a Qualified Opinion, a Disclaimer of Opinion, or an Adverse Opinion and the matter which gave rise to the modification is –

Resolved, and **Properly accounted** for / **disclosed** in the FS's

→ The Auditor **need not refer** to the Previous Modification in the Current Period Opinion.

Unresolved

→ Effects of such matters are **relevant** in Current Period

→ The Auditor shall **modify his Opinion** on the Current Period's FS's.

[See Note Below]

→ Effects of such matters are **not relevant** in Current Period

→ A Q/D/A Opinion may be reqd. on the Current Period's FS's because of the effects or possible effects of the unresolved matter on the Comparability of the Current & Corresponding Figures.

Note → In the Basis for Modification paragraph in the auditor's report, the auditor shall either –

1. 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
2. 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 Misstatement –** If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued, the auditor shall –

(a) Verify whether the misstatement has been dealt with as required under the applicable financial reporting framework and,

(b) If that is not the case, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, **Modified with respect to the Corresponding Figures** included therein.

Note → When the prior period financial statements that are misstated have not been amended and an Auditor's Report thereon has not been issued in accordance with the requirements of SA 560 (Revised), "Subsequent Events", but the corresponding figures have been properly dealt with as required under the applicable FRF and the appropriate disclosures have been made in the Current Period Financial Statements, the Auditor's Report may include an **Emphasis of Matter Paragraph** describing the circumstances and referring to, where relevant, disclosures that fully describe the matter that can be found in the Financial Statements.

4. **Prior Period Financial Statements Audited by a Predecessor Auditor -** If the financial statements 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 –

(a) That the financial statements of the prior period were audited by the predecessor auditor;

(b) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and

(c) The date of that report.

5. **Prior Period FS's Not Audited –**

(a) If the prior period financial statements were **not au**dited, the auditor shall –

- ✓ Request the management to **disclose this fact** on the face of the Current Period Financial Statements with respect to the Corresponding Figures.
- ✓ State in an **Other Matter Paragraph** in the auditor's report that the Corresponding Figures are **unaudited.**

(b) Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

iii) Audit Reporting for Comparative Financial Statements –

1. **Basic Principle –**

(a) When comparative financial statements are presented, the auditor's opinion shall refer to **each period** for which financial statements are presented and on which an audit opinion is expressed.

(b) Since the auditor's report on Comparative Financial Statements applies to the financial statements for **each of the periods presented,** the auditor may express a qualified opinion or an adverse opinion, disclaim an opinion, or include an Emphasis of Matter paragraph with respect to one or more periods, while expressing a different auditor's opinion on the financial statements of the other period.

2. **Difference in Opinion –** When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements 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 Financial Statements Audited by a Predecessor Auditor –**

(a) If the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's financial statements, the auditor shall state in an Other Matter paragraph –

- ✓ That the financial statements 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 there for; and
- ✓ The date of that report, unless the predecessor auditor's report on the prior period's financial statements is revised with the financial statements.

Unless the Predecessor AR's on the P's FS's is revised with the FS's

(b) If the Auditor concludes that a material misstatement exists that affects the Prior Period Financial Statements 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.

(c) If the Prior Period Financial Statements are **amended,** and the Predecessor Auditor agrees to issue a new **Auditor's Report** on the amended Financial Statements of the prior period, the auditor shall report only on the Current Period.

4. **Prior Period Financial Statements Not Audited –**

(a) If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph that the comparative financial statements are **unaudited.**

(b) Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

....

Appendix

Corresponding Figures

Illustration 1 – Circumstances include the following –

- The auditor's report on the prior period, as previously issued, included a qualified opinion.
- The matter giving rise to the modification is unresolved.
- The effects or possible effects of the matter on the current period's figures are material and require a modification to the auditor's opinion regarding the current period figures.

INDEPENDENT AUDITOR'S REPORT

(Refer the Format of Audit Report – 7000)

Basis for Qualification 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 ₹ XXX in 20X1 and ₹ XXX in 20X0, property, plant and equipment should be reduced by accumulated depreciation of ₹.XXX in 20X1 and ₹ XXX in 20X0, and the accumulated loss should be increased by ₹ XXX in 20X1 and ₹ 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").

Illustration 2 – Circumstances include the following –

- The auditor's report on the prior period, as previously issued, included a qualified opinion.
- The matter giving rise to the modification is unresolved.
- The effects or possible effects of the matter on the current period's figures are immaterial but require a modification to the auditor's opinion because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.

Basis of Qualification Opinion

Because we were appointed auditors of the Company during 20X0, we were not able to observe the counting of the physical inventories at the beginning of that period or satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories affect the determination of the results of operations, we were unable to determine whether adjustments to the results of operations and opening retained earnings might be necessary for 20X0. Our audit opinion on the financial statements for the year ended 31 March, 20X0 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

Qualified Opinion

In our opinion, except for the possible effects on the corresponding figures 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").

Corresponding Figures

Illustration 3 – Circumstances include the following –

- Auditor is required to report on both the current period financial statements and the prior period financial statements in connection with the current year's audit.
- The financial reporting framework used in preparing the financial statements is other than accounting principles generally accepted in India. However, the audit is performed in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India.
- The auditor's report on the prior period, as previously issued, included a qualified opinion.
- The matter giving rise to the modification is unresolved.
- The effects or possible effects of the matter on the current period's figures are material to both the current period financial statements and Prior Period Financial Statements and require a modification to the auditor's opinion.

Basis of 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 ₹ XXX in 20X1 and ₹ XXX in 20X0, property, plant and equipment should be reduced by accumulated depreciation of ₹ XXX in 20X1 and ₹ XXX in 20X0, and the accumulated loss should be increased by ₹ XXX in 20X1 and ₹ 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").

Some Past Attempts Questions

S.N.	Questions	Marks and Attempt	Answer
1.	What are the **auditor's responsibilities in respect of corresponding figures?**	**[4 Marks]** **[May 2010]**	**Refer Point No. 6 – i) Audit Procedures – 1, 2 & 3 on Pg. No. 27**
2.	The audit report of P Ltd. for the year 2012 – 13 contained a **qualification regarding non – provision of doubtful debts.** As the statutory auditor of the company for the year 2013 – 14, how would you report, if – (a) The company **does not make provision** for doubtful debts in 2013 – 14 (b) The company **makes adequate provision** for doubtful debts in 2013 – 14?	**[8 Marks]** **[June 2009]**	**Refer Point No. 6 – ii) Audit Reporting for Corresponding Figures – 1 & 2 on Pg. no. 27** **For Conclusion See Below**
Conclusion – In the instant Case, if P Ltd. – **(a)** Does not make provision for doubtful debts the auditor will have to **modify his report for both current and previous year's figures** as mentioned in **Point No. 6 – ii) Audit Reporting for Corresponding Figures – 1 & 2 on Pg. no.** . **(b)** If however, the provision is made, the auditor need **not refer to the earlier year's modification.**			
3.	Write Short Note on Corresponding Figures.	**[4 Marks]** **[May 2013]**	**Refer Point No. 5 (b) on Page no. 26**
4.	Write Short Note on Auditor's Responsibilities regarding comparatives.	**[4 Marks]** **[Nov. 2006]**	**Refer Point No. 6 on Page no. 27**

Standard on Auditing (SA) 720
Auditor's responsibility in relation to other information in documents containing auditor's financial statements

1. Effective Date

This Standard on Auditing becomes operative for all audits relating to accounting periods beginning **on or after 1st April, 2010.**

2. Introduction

1. For auditors it will be a wider role in the affairs of a company and apart from financial statements, also to inspect 'other information' to look for **possible material inconsistencies** to make the audit reports fool-proof.
2. It will also help auditors **"to go beyond receiving the evidences** by valuating them on prudence principles."

3. Objective

The objective of the auditors is to respond appropriately when documents containing audited financial statements and the auditor's report thereon include **Other Information that could undermine the credibility** of those financial statements and the auditor's report.

4. Definitions

(a) **Other information** – Financial and non-financial information (other than the financial statements and the auditor's report thereon) which is included, either by law, regulation or custom, in a document containing audited financial statements and the auditor's report thereon.

(b) **Inconsistency** – Other information that contradicts information contained in the audited financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial statements.

(c) **Misstatement of fact** – Other information that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented which may undermine the credibility of the document containing audited financial statements.

5. Other Information comprises of:-

1. **A report by management or those charged with governance on operations.**
2. **Financial summaries or highlights.**
3. **Planned capital expenditures.**
4. **Financial ratios.**
5. **Selected quarterly data.**
6. **However if does not encompass:-**
   - A press release or a transmittal memorandum, e.g. a covering Letter with audited financial statements and the auditor's report.
   - Information contained in analyst briefings.
   - Information on entity's web site.

6. Scope

Consideration Specific to Smaller Entities –

- Only if required law or regulations e.g. A document where a legal requirement exists for an accompanying report by those charged with governance.

- In case of certain entities such as, Central/State governments and related government entities (for example, agencies, boards, commissions), withdrawal from the engagement may not be an option. In such cases the auditor may issue a report to the appropriate statutory body giving details of the inconsistency.

7. Material Inconsistencies

When management agrees to revise the inconsistencies, the auditor shall review the steps taken by the management and ensure that the users of FS are informed of the revision. When the management refuses to make the revisions, the auditor shall communicate this matter to those charged with governance; and

1. Include in the auditor's report an Other Matter(s) paragraph describing the material inconsistency;
2. Where withdrawal is legally permitted, withdraw from the engagement.
3. The auditor may base any decision on what further action to take on advice from the auditor's legal counsel.

8. Auditors report

When the auditor concludes that there is a material misstatement of face in the other information which management refuses to correct, the auditor shall notify those charged with governance of the auditor's concern regarding the other information and take any further appropriate action.

SA 700 (Revised)
Forming an Opinion and Reporting on Financial Statements

1.	**Effective Date**	April 1, 2011
2.	**Scope**	*This SA deals with:* i. The auditor's responsibility to form an opinion on the financial statements. ii. The form and content of the auditor's report issued as a result of an audit of financial statements.
3.	**Objectives**	a. To form an opinion on the basis of audit evidence. b. To express that opinion via written report.
4.	***Requirement***	
	Forming an Opinion on the Financial Statements	The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework by obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.
	Form of Opinion	Refer table as per notes
	Auditor's Report	➢ The auditor's report shall be in writing. ➢ Title ➢ Addressee ➢ Introductory Paragraph ➢ Management's Responsibility for the Financial Statements ➢ Auditor's Responsibility ➢ Auditor's Opinion ➢ Other Reporting Responsibilities ➢ Signature of the Auditor ➢ Date of the Auditor's Report ➢ Place of Signature
	Auditor's Report Prescribed by Law or Regulation	Such audit report shall refer to Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements: ➢ Title ➢ Addressee ➢ Introductory Paragraph ➢ Management's Responsibility for the Financial Statements ➢ Auditor's Responsibility - to express an opinion on the financial statements and the scope of the audit, that includes: a. A reference to Standards on Auditing and the law or regulation; and b. A description of an audit in accordance with those Standards; • An opinion paragraph containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the

		jurisdiction of origin of the financial reporting framework); • The auditor's signature; • The date of the auditor's report; and • The place of signature.
	Auditor's Report for Audits Conducted in Accordance with Both Auditing Standards issued by the Institute of Chartered Accountants of India and International Standards on Auditing	In such a case, the auditor's report may refer to International Standards on Auditing in addition to the national auditing standards, but the auditor shall do so only if: (a) There is no conflict between the requirements in the national auditing standards and those in ISAs that would lead the auditor (i) to form a different opinion, or (ii) not to include an Emphasis of Matter paragraph that, in the particular circumstances, is required by ISAs; and (b) The auditor's report includes, at a minimum, each of the elements set out in aforesaid paragraph i.e. Auditor's Report Prescribed by Law or Regulation, when the auditor uses the layout or wording specified by the national auditing standards.
	Supplementary Information Presented with the Financial Statements	In such a case, the auditor shall evaluate whether such supplementary information is clearly differentiated from the audited financial statements. If not, the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall explain in the auditor's report that such supplementary information has not been audited.