

# Chapter - 11 "Audit Reports"

(Lecture No. 3)

- Topic Covered:
- (1) Basics of Audit Report
  - (2) Types of Audit Reports
  - ✓ (3) Forming an opinion on f.s.
  - ✓ (4) Audit Reports -
    - (i) Audit conducted in accordance with SA
    - (ii) Auditor's Report prescribed by Law and Reg.
    - (iii) Audit conducted in accordance with SA and ISA.
  - (5) Supplementary info. presented with the audited f.s. (SA-700)
  - (6) Modifications to the opinion in the Independent Auditor's Report (SA 705)
  - (7) EOM Paragraph and OM Paragraph in the Independent Auditor's Report (SA 706)

## (8) Communicating Key Audit Matters (KAM) in the Independent Auditor's Report:

(SA 701):

	TCWG	KAM	Reporting	Auditor	Matter
- <u>(Modification)</u> - as per SA <u>705</u>	✓ (SA-260)	✓ (SA-701)	As per 705 (a) Opinion Section (b) Basis for Opinion Section	↓ Audit procedures ↓ Audit Evidence	TCWG SA-260 - Responsibility - Scope/Time - Signif. findy.
- (EOM/OM Para) - as per SA-706	✓ (SA-260)	✓ (SA-701)	As per 706 (a) EOM Para (b) OM Para	+ Significant findings +	- Independ.
- Material uncertainty as to Going concern as per SA-570	✓ (SA-260)	✓ (SA-701)	As per 570 <u>MURG</u>	Significant observations	
- <u>Other Matter Communicated to TCWG</u> - <u>Significant</u> -					<u>SA 701</u>

### (i) Meaning and Purposes of KAM:

- KAM are those matters that in the auditor's judgement were of most significance in the audit of f.s. of current period.
- KAM are selected from the matters communicated to TCWG.
- KAM given in the audit report will serve the following purposes:
  - (A) To enhance the communicative value of the auditor's report by providing greater transparency.
  - (B) To provide additional information to users of f.s. to assist them in understanding those matters that in the auditor's professional judgement were of most significance in audit of f.s. of current period.
  - (C) To assist the intended users in understanding the entity and areas of significant management judgement in audited f.s.

### (ii) Nature of communication of KAM:

Communicating KAM in the auditor's report is not:

- (A) a substitute for the disclosures in the financial statements; or
- (B) a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement as per SA 705; or
- (C) a substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; or
- (d) a separate opinion on individual matters.

### (iii) Considerations for determining KAM:

KAM are to be determined from matters communicated to TCWG after considering the following:

- (A) Areas of higher assessed RMM or significant risks identified in accordance with SA 315.
- (B) Significant judgements of auditor relating to statements that involved management judgements. For Ex:
  - (i) Determination of Provisions
  - (ii) " " " Fair Values
  - (iii) Selection of Accounting Policies
  - (iv) Accounting Estimates
- (C) Effect of significant events and transactions occurred during the year.

### (iv) Manner of Reporting:

- Auditor shall describe each KAM, using an appropriate sub-heading, in a separate section of the auditor's report under the heading "Key Audit Matters".
- Before giving the detail about KAM, introduction as to KAM is to be given as follows:

auditor's

" KAM are those matters that in the professional judgement were of most significance in audit of f.s. of current period and these matters were addressed in the context of audit of f.s. as a whole and auditor does not provide a separate opinion on these matters."
- Description of each KAM in the KAM Section of the auditor's report shall include a reference to the related disclosure, if any, in the f.s. and shall address (a) why the matter was considered to be of most significance in the audit and therefore, determined to be a KAM; and (b) How the matter was addressed in the audit.

## (9) Comparative Information - Corresponding Figures and Comparative Financial Statements:

(SA-710)

### (A) Meaning and Nature of Comparative Information:

Those amounts and disclosures included in the financial statements of an Entity in respect of one or more prior periods in accordance with the applicable FRF.

Comparative info. can be presented in two ways:

#### (a) Corresponding Figures

Comparative info. where amounts and other disclosures for prior period are included as integral part of current period financial statements

and

intended to be read only in relation to amounts and disclosures to current period.

#### (b) Comparative F.S.

Comparative info. where amounts and other disclosures for prior period are included for comparison with F.S. of current period

and

if audited, are referred to in the auditor's opinion.

Note: In case of corresponding figures, auditor's opinion on financial statements refers to current period only.

However, in case of comparative F.S., auditor's opinion refers to each period covered by the comparative F.S.

## (B) Auditor's Objective as per SA 710:

- ✓ (i) To obtain SAAE about whether the comparative information included in the f.s. has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable FRF; and
- ✓ (ii) To report in accordance with the auditor's reporting responsibilities.

Imp:

## (C) Audit Procedures for Verification of Comparative Information:

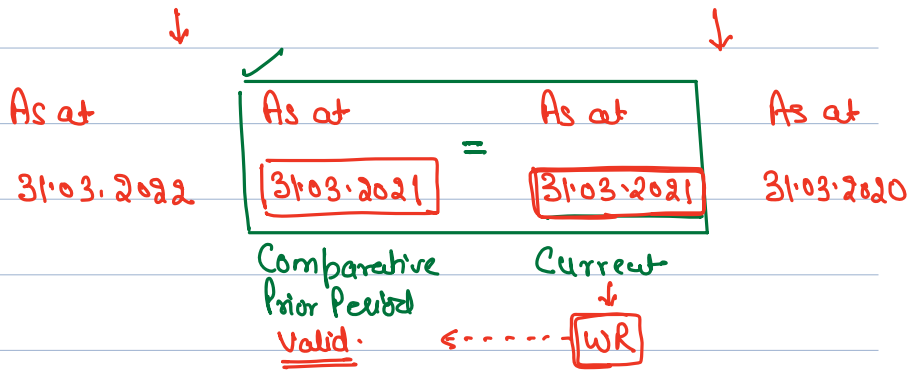
(1) Auditor is required to determine whether financial statements include comparative information.

If yes, whether such information is appropriately classified.

For this purpose, auditor is required to evaluate the following:

(a) whether the comparative info. agree with the amount and disclosures presented in prior period f.s.

For Ex: B/s as at 31.03.2022 B/s as at 31.03.2021



(b) whether the accounting policies are consistently applied and if there is any change in accounting policies, ascertain whether such changes have been appropriately presented and disclosed.

(2) In case of any doubt as to existence of material misstatement in comparative information, auditor need to perform additional procedures.

Note: In case f.s. of prior period were audited by same auditor, procedures as covered by SA 560 will apply.

(3) Obtain a written representation from the management to re-affirm that w.r they previously made with respect to prior period financial statements remains appropriate.

Imp-

(1) Audit Reporting regarding corresponding figures:

When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in the following circumstances:

(1) If the auditor's report on prior period includes a modified opinion and the matter which gives rise to the modification is unresolved: Auditor shall modify the auditor's opinion on the current period f.s.

In the "Basis for Modified Opinion" Para, auditor shall:

(a) Refer to both current period figures and corresponding figures in the description of the matter giving rise to modification (if possible effects of the matter on the current period is material); or

(b) In other cases, explain that the audit opinion has been modified because of possible effects of unresolved matter on the comparability of current period figures and corresponding figures.

(2) If auditor obtains audit evidence that a material misstatement exist in two prior period F.S. on which unmodified opinion was issued:

Auditor shall express a Qualified opinion or adverse opinion in the auditor's report on the current period financial statements.

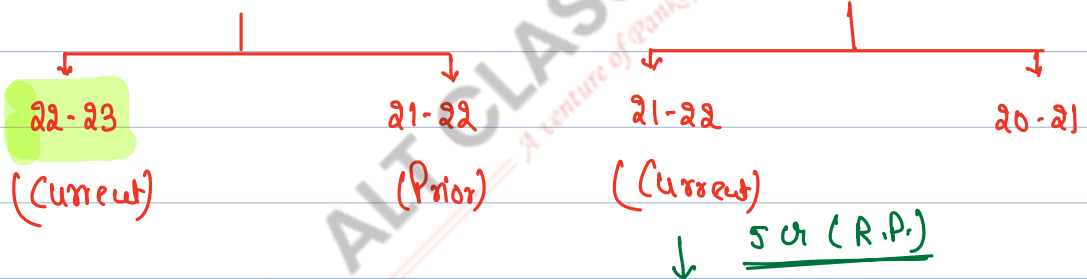
(3) If prior period F.S. not audited:

Auditor shall state in an OM Para in the auditor's report that corresponding figures are unaudited.

Ex:

FY 2022-23

FY 2021-22



I Provision  unresolved ← Audited - Modification  
 e.g. Provision-Bad debt x

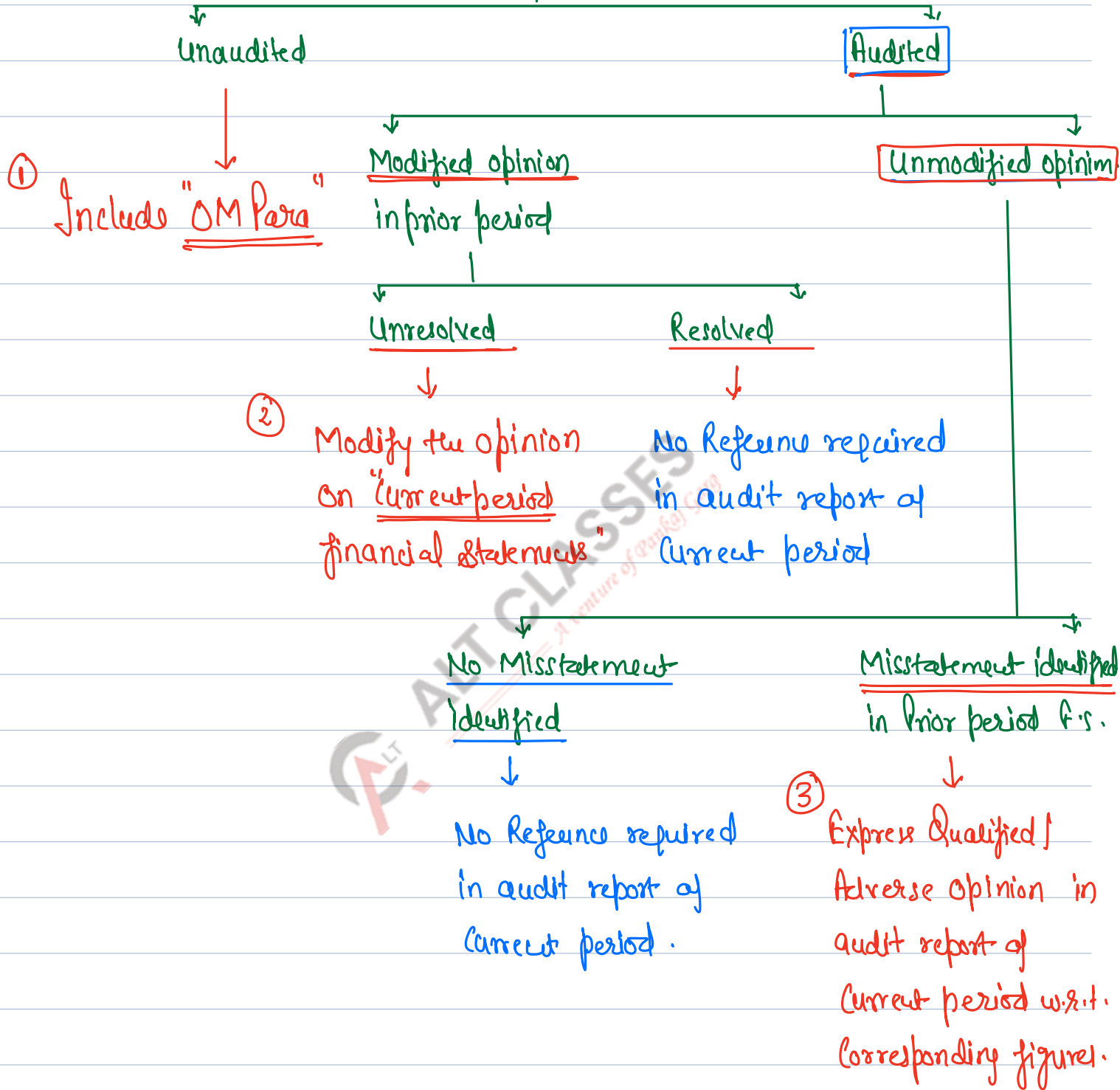
Modified opinion - CY/Py - description para.

II (Misstatements identified) → Audited - Unmodified opinion  
 ↓ Prior period  
Modified (corresponding figures)

III OM Para. - unaudited - Unaudited.



# Prior period F.S.



← →  
- MIQ + Correct / Incorrect -