

Chapter - 7 "Reporting"

- Topics to be covered:
- (i) SA 700 - 799 (SA 700, 701, 705, 706, 710, 720)
 - (ii) Reporting under Companies Act, 2013
 - (iii) CARO, 2020

(1) Meaning of Audit Report: Report in which auditor expresses his opinion on the financial statements.
It shall be in writing.
(Hard copy format using Electronic Medium).

(2) Types of Audit Reports:

2 types

(A) Unmodified Reports

Reports issued when auditor concludes that f.s. are prepared in all material respects in accordance with applicable FRF
(SA-700)

(B) Modified Reports

(a) Modified opinion

- (1) Qualified opinion
 - (2) Adverse "
 - (3) Disclaimer of opinion
- (SA-705)

(b) Unmodified opinions

- with EOM Para
 - with OM Para
- (SA-706)

(3) ✓ SA-700 "Forming an opinion and Reporting on F.S.":

- Auditor is required to form an opinion that F.S. are prepared in all material respects as per requirements of applicable FRF.
- To form this opinion, Auditor needs to conclude that whether he has obtained reasonable assurance that F.S. as a whole are free from material misstatements, whether caused due to error or fraud.
- Conclusion shall take into account:
 - (i) Conclusion in accordance with SA 330, whether SAAE has been obtained.
 - (ii) " " " " SA 450, whether uncorrected misstatements are material, either individually or in aggregate.
 - (iii) Evaluation, whether:
 - (a) F.S. adequately disclose significant accounting policies.
 - (b) Accounting policies are consistent with FRF and appropriate.
 - (c) Accounting estimates made by the management are reasonable.
 - (d) Information presented in F.S. is relevant, reliable, comparable and understandable.
 - (e) F.S. provide adequate disclosure to enable the user to understand the effects of material transactions and events.

Auditor's Report: 3 situations

- AR for audits conducted in accordance with SA.
- " prescribed by law and regulation.
- " for audits conducted in accordance with SA and ISA.

Elements of an unmodified Report:

- ✓ (i) Title
- ✓ (ii) Addressee
- ✓ (iii) Opinion Section

(iv) Basis for opinion Section

- ✓ (vi) Going Concern, if required as per ISA 570
(Material uncertainty relating to Going Concern)
- ✓ (vii) Key Audit Matters, if required as per ISA 701.
(Required in case of listed entities)
- ✓ (viii) Other Information, if required as per ISA 720.

✓ (ix) Management Responsibilities for the financial statements.

✓ (x) Auditor's Responsibilities

- ✓ (xi) Reporting on other legal and regulatory requirements (for Ex. Sec. 143(3); IFC, CARO)

✓ (xii) Signature

✓ (xiii) Place

✓ (xiv) Date

(Reading from Main Book)

Imp.

Audit Reports for audits conducted as per SA and ISA:

- In certain situations, auditor may be required to conduct an audit in accordance with the ISA, in addition to SA.
- In such a case, auditor's report may refer to ISA in addition to SA, but auditor shall do so only if:
 - (a) there is no conflict between the requirements of ISA and SA, that would lead the auditor:
 - (i) to form a different opinion; or
 - (ii) not to include an EOM Para or OM Para that in the particular circumstances is required by SA; and
 - (b) Auditor's report shall include a minimum of each of the elements set out in the Auditor's report prescribed by law and regulation, when the auditor uses the layout specified by SA.

Imp.

Supplementary Information presented with the financial statements:



Supplementary Info. (not required by FRF) is presented with the F.S.



Auditor shall evaluate whether such info. is integral part of F.S. (Based on Nature)



YES



Supplementary Info. shall be covered by Auditor's opinion



No



Evaluate whether such supplementary info. is presented in a way that sufficiently and clearly differentiate it from the audited F.S.

↓ No

Ask Mngt. to change the presentation of supplementary info.

↓ Mngt. refuses to do so

- Identify that unaudited supplementary info.; and
- Explain in audit report that supplementary information has not been audited.

to the opinion

(4) Modifications in the Independent Auditor's Report: (SA 705)

(A) Modified opinion:

3 types of modified opinions



- Ex: B/s Total: 50 Cr.
- (i) Misstatements in Inventory - 2 Cr. (Qualified opinion)
- (ii) Misstatements in Valuation of Investments - ₹ 37 Cr. (Adverse opinion)
- (iii) Evidence not available to verify Payables - 1,800 Cr. (Qualified opinion)

- (a) Qualified opinion: Issued when f.s. are materially misstated, but such misstatement does not have pervasive effect; or Issued when auditor unable to collect SAAE for matters that are material, but do not have pervasive effect.
- (b) Adverse opinion: f.s. contain misstatements that are material as well as having Pervasive effect.
- (c) Disclaimer of opinion: Auditor unable to collect SAAE for matters that are material as well as having Pervasive effect.

	<u>Material but not pervasive</u>	Material as well as Pervasive
Misstatements identified in the financial statements.	Qualified opinion	Adverse opinion
Audit Evidences - Not available	Qualified opinion	Disclaimer of opinion

(B) Circumstances when a modification to the auditor's opinion is required:

(i) Auditor concludes that on the basis of audit evidences obtained, f.s. as a whole are not free from material misstatements, may be due to following reasons:

(a) Inappropriate Audit Policies

(b) " applicability of selected Audit Policies

(c) " or Inadequate disclosures in the f.s.

(b) Auditor is unable to obtain SAAE to conclude that f.s. as a whole are free from material misstatement, may be due to following reasons:

(i) Limitations imposed by Mngt;

(ii) Circumstances beyond entity control;

(iii) " related to nature and timing of auditor's work.

Limitations Imposed by Mngt: (after accepting the engagement)



Request Mngt. to remove limitation → Mngt. Refuses.



Determine possibility to perform ← Communicate to TCWG

Alternate Audit procedures to obtain SAAE



Auditor unable to obtain SAAE → Determine Possible effect on f.s.



(a) Material but not Pervasive



Issue Qualified Opinion



(b) Material and Pervasive.



Withdraw (Resign) if practicable and Not prohibited by law and regulation



Prohibited by law and regulation



Communicate to TCWG and Disclaim the Opinion.

Circumstances where Auditor's withdrawal is not permitted: (SEBI Circular)

In case of listed entities



- If auditor resigns within 45 days from end of a quarter → Issue audit / limited review report for that quarter before resignation.
- If auditor resigns after 45 days from end of a quarter → Issue audit / limited review report for that quarter and next quarter before resignation.

Ex:

01.04.2023

30.06.2023

Proposed Resignation
- 10.08.2023

Proposed Resignation
- 31.08.2023

Audit / Limited Review
of Q1 is required
before resignation.

Audit / limited
Review of Q1 / Q2
is required.

- If limited review report issued for first three quarters → Auditor shall issue audit report for the full year before resignation.

(c) Considerations while drafting Modified opinions:

I. Opinion Section: Change the heading - Qualified opinion

- Adverse opinion

- Disclaimer of opinion

Wordings of Qualified opinion: Except for the effects of matters described in Basis for Qualified opinion section, F.S. reflects true and fair view of _____ as per requirements of _____.

Wordings of Adverse opinion: In auditor's opinion, because of significance of matters described in Basis for Adverse opinion Section, the F.S. have not been prepared in all material respects in accordance with the requirements of _____.

Wordings of Disclaimer of opinion: Because of the significance of matters described in Basis for Disclaimer of Opinion section, auditor has not been able to obtain SAAE to provide a basis for audit opinion on the F.S. and hence no opinion is being expressed.

II. Basis for opinion Section: Change the heading - Basis for Qualified opinion
" " Adverse "
" " Disclaimer of "

- Matters that give rise to modification is to be mentioned in detail in this section.

- Amend the statement w.r.t. auditor's believing that audit evidences are sufficient to provide a basis for "Qualified opinion" or "Adverse

Opinion".

- However, in case of Disclaimer of opinion, auditor shall not include reference of section of auditor's report that describes auditor's responsibilities and statement w.r.t. believing that SAAE obtained.

III. Auditor's Responsibility Section (in case of Disclaimer of Opinion):

In case of issue of disclaimer of opinion, auditor shall amend the description of auditor's responsibilities so as to include only the following:

- (a) Statement that auditor's responsibility is to conduct an audit of f.s. in accordance with SA and to issue auditor's report.
- (b) Statement that because of significance of matters described in basis for disclaimer of opinion section, auditor was not able to obtain SAAE so as to provide a basis for audit opinion.