

Chapter - 7 "Audit Reports"

(Lecture No. 2)

(1) Basics of audit report

(2) Types of audit reports

(3) SA-700

(4) SA-705

(5) SA-706 "Emphasis of Matter Paragraph and Other Matter Paragraph in the Independent Auditor's Report"

(A) Emphasis of Matter (EOM Para):

Meaning: A para included in the auditor's report that refers to a matter appropriately reflected or disclosed in the financial statements, that in the auditor's judgement is of such significance that it is fundamental to the user's understanding of F.S.

Requirements of EOM Para:

(i) EOM Para is not a substitute of Modified opinion, KAM or MURG Para.

(ii) EOM Para should be included in separate section titled as "Emphasis of Matter".

(iii) EOM Para should immediately follow the "Basis for opinion Section".

(iv) EOM Para should refer to information which is appropriately reflected or disclosed in the financial statements.

(v) It should be indicated that auditor's opinion is not modified in respect of this matter.

① Financing Issue

✓ MURG

② Prior period F.S.

audited by predecessor

auditor - modified opinion

modification not retained

✓ Modified opinion

✓ EOM Para

③ Pending litigation - sub. liability
- App. disclosed in F.S.

✓ EOM Para

④ Matter communicated to
TCWG - considered as most
significant for credit of current
Period - KAM.

Circumstances when EOM Para can be issued: (Noting - H.W.)

(B) Other Matter Para:

Meaning: A para included in the auditor's report that refers to a matter other than those presented / disclosed in the financial statements

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that in the auditor's judgement is relevant for user's understanding of audit, Auditor's report or Auditor's responsibilities.

Requirements of OM Para:

- (i) OM Para is not a substitute for modified opinion, KAM or MURG.
- (ii) OM Para should be included in a separate section titled as "Other Matter".
- (iii) OM Para should be located in the auditor's report after "Key Audit Matter".
- (iv) If other matter is related with other legal and regulatory reporting requirements, OM Para is to be placed in "Reporting on Other legal and Regulatory Requirements" section.

Circumstances in which OM Para is included:

- (i) If auditor rely on work of branch auditor (SA-600)
- (ii) In case of issue of separate opinion by joint Auditor (SA-299)
- (iii) If Prior period f.s. not audited or audited by predecessor auditor (SA 710/510).

⑥ SA-701 "Communicating KAM in the Independent Auditor's Report"

(i) Introductory topics: Reading from book

(ii) 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 judgement of auditor relating to statements that involved management judgements.

For Ex: Determination of provision;

" " Fair values;

Selection of Accounting Policies;

Determination of Accounting Estimates.

(c) Effect of significant Events and transactions that occurred during the year.

(iii) Manner of Reporting:

- Auditor shall describe each KAM, using an appropriate sub-heading, in a separate section of auditor's report under the heading "Key Audit Matters".

- Before giving detail for KAM, introduction is to be given as follow:
"KAM are those matters that in the auditor's 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 shall include a reference of related disclosure, if any, in the F.S. and shall address:

- (a) Why the matter was considered to be one of the most significant in the audit and therefore, determined to be a KAM; and
- (b) How the matter was addressed in the audit.

(iv) Circumstances in which a matter determined to be KAM is not reported:

KAM need not be reported if:

- (a) Law or regulations precludes public disclosure about the matter; or
- (b) Auditor determines that matter should not be reported in audit report, because the adverse effects of doing so would reasonably be expected to be out weight the public interest benefit of such communication

Note: However, auditor may report this matter if entity has publicly disclosed the matter.

(7) SA-720 "Auditor's Responsibilities relating to Other Information":

- (i) Scope of SA-720: - SA 720 deals with auditor's responsibilities relating to other information, that is included in entity annual report.
- Such responsibilities do not constitute an
 - (a) assurance engagement on other information;
 - (b) obligation on the auditor to obtain assurance on other information

(ii) Other Information: Financial or non financial information, other than audited f.s. and auditor's report, included in an Entity annual report.

For Ex: Board's Report; Value added statements, Management discussion and analysis; CSR Report; Corporate Governance report.

(iii) Auditor's Responsibilities:

(A) Obtain the other info :- Auditor shall discuss with management as to the documents which comprises the annual report and timing of availability of such documents.

- Make suitable arrangement to obtain these documents prior to date of AR.

- If any of the document is not available upto the date of AR, request the mngt to provide WR that such documents will be provided to auditor when available.

(B) Reading the other information: Auditor shall read the other information and determine whether there exist any material inconsistency in between:

(i) Other info. and F.S.

OR

(ii) Other info. and auditor's knowledge

(C) Auditor's responses in case of material inconsistency:

Auditor should discuss the matter with management and perform appropriate procedures to conclude:

(i) whether there exist any material misstatement in F.S.; or

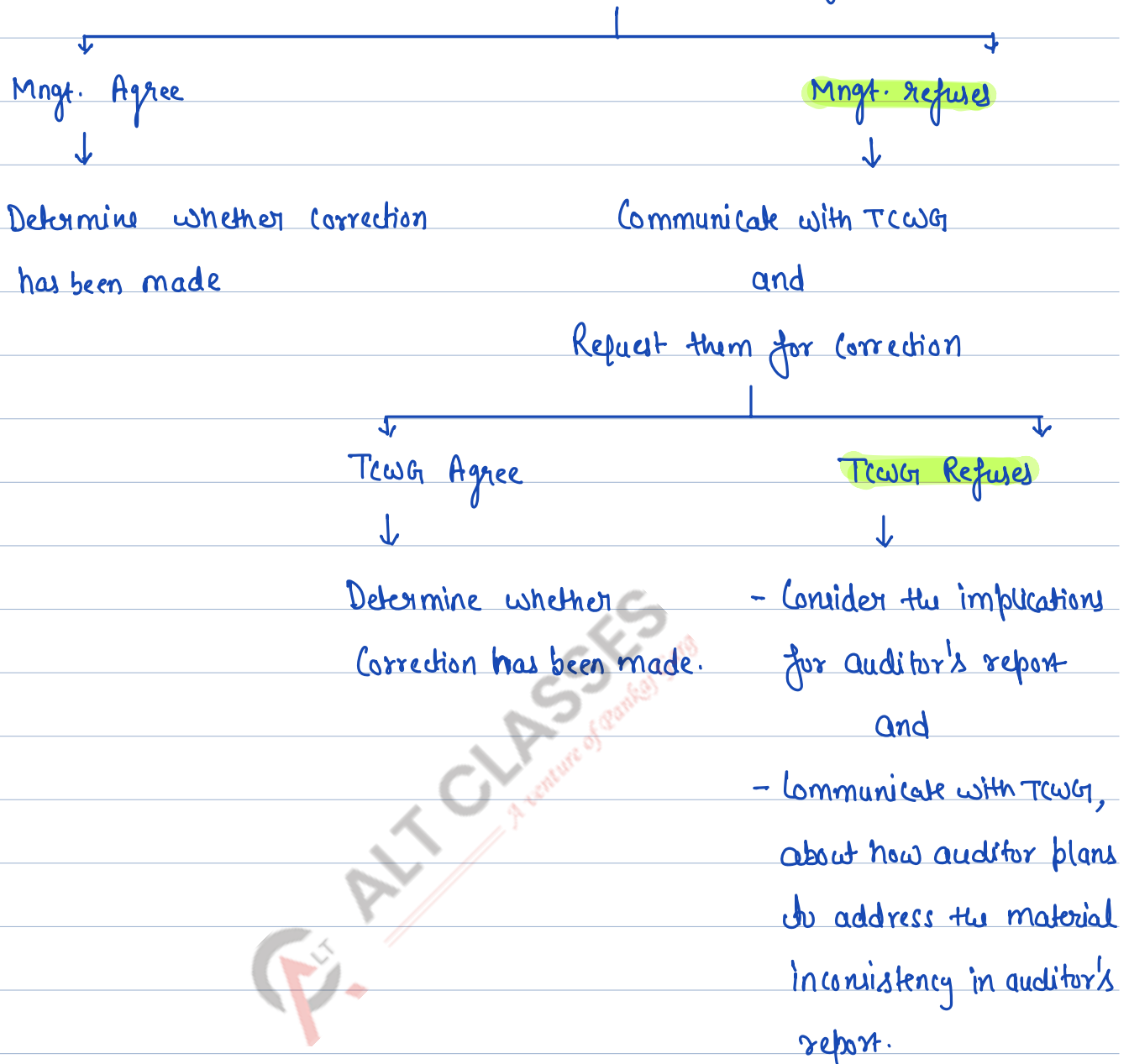
(ii) whether there is a requirement to update the understanding of the Entity and Environment; or

(iii) whether there exist any material misstatement in Other info.

In situation (i), auditor should respond appropriately in accordance with other SA (SA 450).

In situation (ii), auditor should respond appropriately in accordance with other SA (SA 315).

In situation (iii), auditor should request the management for correction.



Note: If auditor concludes existence of material misstatement in Other information after the date of AR, auditor shall perform necessary procedures, if Other info. is corrected. However, if corrections not made, take appropriate action considering legal advice and obligations.

Note: If auditor concludes existence of material misstatement in the financial statements, after the date of AR, apply SA 560.

(D) Reporting: - Auditor shall include a separate section in AR, immediately after KAM, with the heading "Other Information".

- This section shall include the following:

- (i) a statement that management is responsible for other info.
- (ii) Identification of other info. obtained prior to date of AR.
- (iii) In case of listed entity, identification of other info. expected to be obtained after date of AR.
- (iv) a statement that auditor's opinion does not cover the other info. and hence no opinion expressed thereon.
- (v) a description of auditor's responsibilities relating to obtaining, reading, and reporting other info.
- (vi) when other info. has been obtained prior to date of AR, a statement that auditor has nothing to report

or

a statement that describes the uncorrected misstatement of other info.

(E) Examples of amounts or other items that may be included in other info:

Noting and learning (8-10 point)