

7.1 - SA 700 "Forming an Opinion and reporting on Financial Statements"

Forming an Opinion on the F.S.

Auditor shall form an opinion on whether F.S. are prepared in all material respects in accordance with applicable FRF. To form opinion, auditor needs to conclude as to whether he has obtained **reasonable assurance** that FS as a whole are free of material misstatements, whether due to fraud or error. The conclusion shall take into account:

- (a) Auditor's conclusion, in accordance with SA 330, whether SAAE has been obtained;
- (b) Auditor's conclusion, in accordance with SA 450, whether uncorrected misstatements are material, individually or in aggregate; and
- (c) Evaluations mentioned below:
 1. Whether F.S. are prepared, in all material respects, in accordance with requirements of applicable FRF.
 2. Whether, in view of requirements of applicable FRF:
 - F.S. adequately disclose significant accounting policies selected and applied;
 - Accounting policies selected and applied are consistent with applicable FRF & are appropriate;
 - Accounting estimates are reasonable;
 - Information presented in F.S. is relevant, reliable, comparable & understandable;
 - F.S. provide adequate disclosures to understand effect of material transactions and events on information conveyed in F.S., and
 - Terminology used in F.S., including title of each F.S., is appropriate.

Elements of an Unmodified Audit Report

1	Title	"Independent Auditor's Report" – so as to distinguish from reports issued by others.	
2	Addressee	Auditor's Report shall be addressed as appropriate. Generally, it is addressed to those for whom it is prepared.	
3	Opinion Section	Fair Presentation Framework	In our opinion, the F.S. present fairly in all material respects in accordance with [applicable FRF]; Or In our opinion, the F.S. gives a true and fair view of _____ in accordance with [applicable FRF]
		Compliance Framework	In our opinion, the F.S. present, in all material respect in accordance with [applicable FRF]
		Opinion Para shall also cover the following: <ul style="list-style-type: none"> • Identify Entity. • Identify title of each financial statement. • Specify period/date covered by each F.S. • State that F.S. have been audited. 	
4	Basis for Opinion	<ul style="list-style-type: none"> • States that audit was conducted in accordance with SAs. • Refer to Section of Auditor's report that describes auditor's responsibilities. • Compliance of Ethical requirements including independence. • Auditor's believing that they had obtained SAAE to provide a basis for opinion. 	



SA 700 "Forming an Opinion and reporting on Financial Statements"



Elements of an Unmodified Audit Report

5	Going Concern	Where applicable, auditor shall report in accordance with SA 570.	<ol style="list-style-type: none"> 1. State objective of auditor to obtain reasonable assurance that F.S. as a whole are free from material misstatements & issue auditor's report that includes an auditor's opinion. 2. Explanation w.r.t. reasonable assurance & application of concept of materiality. 3. Statement that auditor exercises professional judgment & maintain professional skepticism throughout audit. 4. State auditor's responsibilities w.r.t.: <ul style="list-style-type: none"> • Identifying & assessing the RoMM. • Design & perform audit procedures responsive to assessed risks. • Obtain SAAE. • Understanding of Internal Control. • Expressing opinion on adequacy and operating effectiveness of IFC. • Evaluation of appropriateness of Accounting policies & reasonableness of accounting estimates. • Conclude on appropriateness of management use of Going Concern basis of accounting. • Evaluate overall presentation, structure & content of F.S. 5. State Auditor's responsibilities w.r.t.: <ul style="list-style-type: none"> • Matters communicated to TCWG. • Providing statement to TCWG on compliance of Ethical requirements. • Determining KAM out of matters communicated to TCWG.
6	Key Audit Matter	In case of Listed Entity, auditor shall communicate KAM in accordance with SA 701.	
7	Management Responsibilities for the F.S.	<ul style="list-style-type: none"> • To prepare F.S. in accordance with applicable FRF. • Maintenance of adequate records for safeguarding of assets and prevention and detection of fraud. • Making reasonable & prudent judgments and estimates. • Design, Implementation & maintenance of IC. • Assessing appropriateness of Going Concern basis of accounting. • Overseeing financial reporting process. 	
8	Auditor's responsibilities for the Audit of F.S.		
9	Other Reporting responsibilities	<ul style="list-style-type: none"> • Heading: "Reporting on Other Legal and Regulatory Requirements". • Will include reporting of CARO, 2020, reporting u/s 143(3) of Companies Act, 2013, Rule 11 of CAAR, 2014. 	
10	Signature	In personal name & name of firm, along with membership number and FRN.	
11	Place	City where audit report is signed.	
12	Date	Should not be earlier than date on which audit evidences are collected.	



Auditor's report for Audits Conducted as per SAs & ISAs

Auditor may be required to conduct an audit in accordance with International Standards on Auditing, in addition to SAs issued by ICAI. In such case, auditor's report may refer to SAs in addition to ISAs, but he shall do so only if:

- (a) There is no conflict between requirements in ISAs and those in SAs that would lead auditor:
- to form a different opinion, or
 - not to include an EOM Para or OM Para that, in particular circumstances, is required by SAs; and
- (b) Auditor's report includes, at a minimum, each of elements set out in Auditor's Report Prescribed by Law or Regulation.

When auditor's report refers to both ISAs and SAs issued by ICAI, auditor's report shall clearly identify the same including jurisdiction of origin of other auditing standards.

Supplementary Information Presented with F.S.

If Supplementary Info. is presented with audited F.S., but not required by FRF, auditor shall:

- Evaluate whether Supplementary Info. is clearly differentiated from audited F.S.
- If not, ask mngt. to change presentation of unaudited Supplementary Information.
- If mngt. refuses, explain in Auditor's Report that Supplementary Info. is unaudited.

If such Supplementary Info. is nevertheless integral part of FS due to its nature, auditor is required to cover, in his audit opinion, how it is presented.

7.2 - SA 701 “Communicating Key Audit Matters in the Independent Auditor’s Report”

Key Audit Matters (KAM): Those matters that in the auditor’s judgment were of most significance in audit of F.S. of current period. These are selected from matters communicated with TCWG.

Scope of SA 701

- ⇒ SA 701 deals with auditor’s responsibility to communicate KAM in auditor’s report.
- ⇒ Communicating KAM in auditor’s report is not a:
 - (a) substitute for disclosures in F.S. that applicable FRF requires to make or that are otherwise necessary;
 - (b) substitute for auditor expressing a modified opinion when required by SA 705;
 - (c) substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on entity’s ability to continue as a going concern; or
 - (d) separate opinion on individual matters.
- ⇒ SA 705 prohibits auditor from communicating KAM when auditor disclaims opinion on F.S., unless such reporting is required by L&R.

Purpose of Communicating KAM

- (a) Enhance communicative value of auditor’s report by providing greater transparency.
- (b) Provide additional information to intended users of F.S. to assist them in understating those matters that in auditor’s judgment were of most significance.
- (c) Assist intended users in understanding the entity & areas of significant mmgt. judgment.
- (d) Provide a basis to further engage with mmgt. and TCWG about certain matters relating to the entity.

Considerations for determining KAM

- KAM are to be determined from matters communicated to TCWG, Considering the following:
- (a) Areas of higher assessed RoMM.
 - (b) Significant auditor judgment relating to F.S. that involved mmgt. judgment. E.g. Accounting estimates having high estimation uncertainty.
 - (c) Effect of significant event or transactions occurred during the year.
- Auditor shall determine which of the matters so determined above were of most significance in audit of F.S. of current period and therefore are KAM.

Circumstances in which a matter determined to be KAM is not communicated

- ⇒ L&R precludes public disclosure about matter; or.
- ⇒ Auditor determines that matter should not be communicated in auditor’s report because adverse consequences of doing so would reasonably be expected to outweigh the public interest benefit of such communication.
- ⇒ It will not be applied if entity has publicly disclosed information about the matter.

Manner of Reporting

- ⇒ Use separate section titled as “Key audit Matter’s”
- ⇒ Use introductory language in this section as – “Key audit Matters are those matters that in auditor’s judgment, were of most significance in audit of F.S. of current period and these matters were addressed in context of audit of F.S. as a whole & auditor does not provide a separate opinion on these matters”.
- ⇒ Description of each KAM shall follow introduction.
- ⇒ Description of KAM shall address reason why matter was considered as KAM.

Modified opinion Vs. Going concern Vs. KAM

- ⇒ KAM is not a substitute for modified opinion under SA 705 or reporting required under SA 570 w.r.t. existence of material uncertainty as to events that cast significant doubt on an entity ability to continue as Going Concern.
- ⇒ Auditor shall report modification / Going concern in accordance with applicable SA & include a reference to basis for Qualified (Adverse) opinion or material ascertaining related to going concern section in KAM Section.

7.3 - SA 705 "Modifications to the Opinion in the Independent Auditor's Report"



Types of Modified Opinion

Qualified	<p>Issued when:</p> <ul style="list-style-type: none"> F.S. are misstated having material but not pervasive effect. <p style="text-align: center;">Or</p> <ul style="list-style-type: none"> Auditor not been able to collect SAAE for transactions that are having material but not pervasive effect.
Adverse	Issued when F.S. are misstated having material & pervasive effect.
Disclaimer	Issued when auditor not been able to collect SAAE for transactions that are having material and pervasive effect.

Limitation after Auditor has accepted the Engagement

- If, after accepting engagement, mngt. imposed limitation on scope, auditor shall request mngt. to remove limitation.
- If mngt. refuses, communicate to TCWG & determine whether it is possible to perform alternative procedures to obtain SAAE.
- If unable to obtain SAAE, modify the opinion (Q/D).
- Consider withdrawal, where practicable and possible.

Circumstances where withdrawal is not permitted

As per directives contained in SEBI Circular, if auditor proposes to resign:

- within 45 days from end of any quarter of a period covered under appointment, then auditor shall, before such resignation, issue audit/limited review report for such quarter.
- after 45 days from end of any quarter of a period covered under appointment, then auditor shall, before such resignation, issue audit/Limited review report for such quarter as well as next quarter.
- If Limited review report has been issued for first three quarters, then auditor shall issue audit report for full year before resigning.

Considerations while issuing modified Opinion

Opinion Section

Use the heading:

- Qualified Opinion
- Adverse Opinion
- Disclaimer of Opinion.

Wordings of Opinion:

Qualified	Except for effects of matters prescribed in "Basis of Qualified Opinion" section, F.S. have been prescribed fairly in all material respects in accordance with [applicable FRF]
Adverse	In auditor's opinion, because of significance of matters described in "Basis of Adverse Opinion" section, F.S. does not give a true and fair view of _____ in accordance with [applicable FRF].
Disclaimer	Because of 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 F.S.

Basis for Opinion Section

Amend the heading: Basis for Qualified Opinion
Basis for Adverse Opinion
Basis for Disclaimer of Opinion.

- Include description of matter giving rise to modification.

Cause of Modification	Description
Material Misstatement in Amount	<ul style="list-style-type: none"> Description of Misstatement. Quantification of financial effect, if determinable. If not determinable, state the fact.
Material Misstatement in Disclosure	Explanation how the disclosures are misstated.
Material Misstatement due to non-disclosure of required information	Describe nature of omitted information. And Include the omitted disclosure provided it is practicable.
Inability to obtain SAAE	State the reason for inability.

- Amend statement w.r.t. auditor believing that audit evidences are sufficient and appropriate to provide basis for "Qualified Opinion" or "Adverse Opinion".
- In case of disclaimer, auditor's report shall not include reference to section of auditor's report that describes auditor's responsibilities and statement w.r.t. auditor's believing that SAAE obtained.

Auditor's Responsibility Section

When auditor disclaims opinion, he shall amend description of auditor's responsibilities to include only the following:

- Statement that auditor's responsibility is to conduct audit in accordance with SAs & to issue Auditor's Report.
- Statement that because of significance of matters described in basis for disclaimer of opinion section, auditor was not able to obtain SAAE to provide a basis for audit opinion.
- Statement about auditor's independence & other ethical requirements.



7.4 - SA 706 “Emphasis of Matter Paragraph & Other Matter Paragraph in the Independent Auditor’s Report”



Emphasis of Matter (EOM) Para

1	Meaning
	Para included in Auditor’s report that refers to a matter appropriately reflected/disclosed in F.S. that in auditor’s judgment is of such significance that it is fundamental to user’s understanding of F.S.
2	Requirements
	<ul style="list-style-type: none"> • Auditor shall include EOM Para in auditor’s report provided: <ul style="list-style-type: none"> (a) Auditor would not be required to modify opinion as per SA 705 as a result of the matter; and (b) When SA 701 applies, matter has not been determined to be a KAM. • When auditor includes EOM Para in auditor’s report, he shall: <ul style="list-style-type: none"> (a) Include Para within a separate section with appropriate heading that includes term “Emphasis of Matter”; (b) Include in Para a clear reference to matter being emphasized & to where relevant disclosures that fully describe matter can be found in F.S.; (c) Para shall refer only to information presented or disclosed in F.S.; and (d) Para shall indicate that auditor’s opinion is not modified in respect of matter emphasized.
3	Requirements in other SAs requiring EOM Para
	<ul style="list-style-type: none"> • FRF prescribed by L & R would be unacceptable but for fact that it is prescribed by L & R. (SA 210) • To alert users that F.S. are prepared in accordance with a special purpose framework. (SA 800) • When facts become known to auditor after date of auditor’s report and auditor provides a new or amended auditor’s report (<i>i.e.</i>, subsequent events). (SA 560)
4	Circumstance when EOM Para can be issued
	<ul style="list-style-type: none"> (a) Uncertain situation as to future outcome of an exceptional litigation. (b) Significant subsequent events. (c) Early application of new AS in advance of its effective date. (d) Occurrence of major catastrophe that may have a significant effect on entity financial position.
5	Location in Audit Reports
	<ul style="list-style-type: none"> • When EOM para relates to FRF, auditor may consider it necessary to place Para immediately following Basis of Opinion section to provide appropriate context to the auditor’s opinion. • When KAM section is presented in report, EOM para may be presented either directly before or after KAM section, based on auditor’s judgment as to relative significance of info. included in EOM para. • Auditor may also add further context to heading “Emphasis of Matter”, such as “Emphasis of Matter – Subsequent Event”, to differentiate EOM Para from individual matters described in KAM section.

Other Matter Para

1	Meaning
	Para included in Auditors Report that refers to a matter other than presented/disclosed in F.S. that in auditor’s judgment is relevant for users understanding of audit, auditor’s responsibilities or auditor’s report.
2	Requirements
	<ul style="list-style-type: none"> • OM Para should be included in audit report in a separate section termed as “Other Matter”. • Auditor shall include Other Matter paragraph in auditor’s report, provided: <ul style="list-style-type: none"> ⇒ not prohibited by L & R; and ⇒ when SA 701 applies, matter has not been determined to be a KAM to be communicated in auditor’s report.

7.5 - SA 710 "Comparative Information - Corresponding Figures & Comparative F.S."



Meaning & Types of Comparative Information

- 1 Comparative Information**
Amounts & disclosures included in F.S. in respect of one or more prior periods in accordance with applicable FRF.
- 2 Corresponding Figures**
Comparative information where amounts & other disclosures for prior period, are included as **integral part of current period F.S.** & are intended to be read only in relation to amounts and other disclosures relating to current period.
- 3 Comparative F.S.**
Comparative information where amounts & other disclosures for prior period, are included for **comparison with F.S. of current period** but, if audited, are referred to in auditor's opinion.

Audit Procedures

- 1 Determine**
 - (a) Whether F.S. include Comparative information required by FRF, &
 - (b) Whether such information is classified appropriately.
- 2 Evaluate**
 - (a) Whether comparative information agrees with amounts & other disclosures presented in prior period; &
 - (b) Whether accounting policies reflected in comparative information are consistent with those applied in current period.
 - (c) Whether, changes in accounting policies, if any, have been properly accounted for & adequately presented and disclosed.
- 3 Doubt over existence of misstatement**
Perform additional audit procedures to obtain SAAE to determine existence of material misstatement.
Note: SA 560 "Subsequent Event" also applies if auditor had audited the prior period F.S.
- 4 Obtain WR**
From mngt. to reaffirm that the WR it previously made with respect to prior period remain appropriate.

Audit Reporting

Corresponding Figures

- Opinion shall not refer to corresponding figures except:
 - (a) If AR of previous period contains modified opinion.
 - (b) If auditor is of opinion, & he has sufficient evidence in this regard, that a material misstatement exists in the F.S. of prior period, which was not addressed earlier.
- If prior period F.S. are not audited, auditor should obtain sufficient audit evidence that the opening balance does not contain any material misstatement.

Comparative F.S.

1. Audit opinion to refer to each period for which F.S. are presented.
2. If opinion on prior period F.S. expressed in current period differs from opinion expressed in relevant prior period, give substantive reason for difference in Other Matter Para.
3. If auditor concludes that a material misstatement is present in previously audited figures of F.S., report it to appropriate level of mngt. and request that predecessor auditor be informed.

Common Reporting Requirements

- 1 Prior Period F.S. Audited by Another Auditor**
Audit report to contain Other Matter para, stating that:
 - FS of prior period were audited by predecessor auditor.
 - Type of opinion expressed by him.
 - Date of that report.
- 2 Prior Period F.S. are Unaudited**
Include Other Matters para:
 - That corresponding FS are unaudited.

But this does not relieve auditor from need to obtain SAAE that opening balances do not contain misstatements that can potentially affect current period F.S.

7.6 - SA 720 "The Auditor's Responsibilities relating to Other Information"

Scope: SA 720 deals with auditor's responsibilities relating to other information, whether financial or non-financial information included in entity's annual report. Auditor's opinion on F.S. does not cover other information, nor does this SA require auditor to obtain audit evidence beyond that required to form an opinion on the F.S.



Auditor's Procedures

1	Obtaining the Other Information
	<p>Auditor shall:</p> <p>(a) Determine, through discussion with mngt, which documents comprises annual report & entity's planned manner & timing of issuance of such documents;</p> <p>(b) Make appropriate arrangements with mngt. to obtain in a timely manner & if possible, prior to date of auditor's report, final version of documents comprising annual report; &</p> <p>(c) When some or all of the documents determined above will not be available until after date of auditor's report, request mngt. to provide a WR that final version of documents will be provided to auditor when available & prior to its issuance by entity, such that auditor can complete procedures required by this SA.</p>
2	Reading & Considering Other information
	<p>Auditor shall read other information & consider</p> <p>(a) whether there is a material inconsistency between other information & F.S., &</p> <p>(b) whether there is a material inconsistency between other information & auditor's knowledge obtained in audit, in context of audit evidence obtained & conclusions reached in the audit.</p> <p>While reading other information, auditor shall remain alert for indications that other information not related to F.S. or auditor's knowledge obtained in audit appears to be materially misstated.</p>

Auditor's Responses

1	When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated
	<p>If auditor identifies that a material inconsistency appears to exist (or becomes aware that other information appears to be materially misstated), auditor shall discuss matter with mngt. & if necessary, perform other procedures to conclude whether:</p> <p>(a) A material misstatement of other information exists;</p> <p>(b) A material misstatement of F.S. exists; or</p> <p>(c) Auditor's understanding of entity & its environment needs to be updated.</p>
2	When auditor concludes that a Material Misstatement of Other Information exists
	<ul style="list-style-type: none"> • If auditor concludes that a material misstatement of other information exists, he shall request mngt to correct other information. If mngt.: <ul style="list-style-type: none"> (a) Agrees to make correction, auditor shall determine that correction has been made; or (b) Refuses to make correction, auditor shall communicate matter with TCWG and request that correction be made. • If auditor concludes that a material misstatement exists in other information obtained prior to date of auditor's report, and other information is not corrected after communicating with TCWG, auditor shall take appropriate action, including: <ul style="list-style-type: none"> (a) Considering implications for auditor's report & communicating with TCWG about how auditor plans to address material misstatement in auditor's report, (b) Withdrawing from engagement, where withdrawal is possible under applicable L & R. • If auditor concludes that a material misstatement exists in other information obtained after date of auditor's report, auditor shall: <ul style="list-style-type: none"> (a) If other information is corrected, perform procedures necessary in the circumstances; or (b) If other information is not corrected after communicating with TCWG, take appropriate action considering auditor's legal rights & obligations, to seek to have uncorrected material misstatement appropriately brought to attention of users for whom the auditor's report is prepared.
3	When a Material Misstatement in F.S. Exists or Auditor's Understanding of Entity & Environment needs to be updated
	<p>If, as a result of performing procedures, auditor concludes that a material misstatement in F.S. exists or auditor's understanding of entity and its environment needs to be updated, auditor shall respond appropriately in accordance with the other SAs.</p>

Reporting

- Auditor's report shall include a separate section with heading "Other Information", when, at date of auditor's report:
 - (a) For audit of F.S. of a listed entity, auditor has obtained, or expects to obtain, other information; or
 - (b) For audit of F.S. of an unlisted corporate entity, auditor has obtained some or all of other information.
- When auditor's report is required to include an Other Information section, it shall include:
 - (a) A statement that mnngt. is responsible for other information;
 - (b) An identification of:
 - (i) Other information, if any, obtained by auditor prior to date of auditor's report; and
 - (ii) For an audit of F.S. of a listed entity, other information, if any, expected to be obtained after date of the auditor's report;
 - (c) A statement that auditor's opinion does not cover other information & accordingly, that auditor does not express an audit opinion;
 - (d) Description of auditor's responsibilities relating to reading, considering & reporting on other information as required by this SA; and
 - (e) When other information has been obtained prior to date of the auditor's report, either:
 - (i) A statement that auditor has nothing to report; or
 - (ii) If auditor has concluded that there is uncorrected material misstatement of other information, a statement that describes uncorrected material misstatement of other information.
- When auditor expresses a qualified or adverse opinion in accordance with SA 705, auditor shall consider implications of matter giving rise to modification of opinion for statement required in above para.

Examples of amounts or other Items that may be included in the "Other Information"

- | | |
|----------|--|
| 1 | Amounts |
| | <ol style="list-style-type: none"> 1. Items in a summary of key financial results, such as net income, EPS, dividends, sales & other operating revenues & purchases & operating expenses. 2. Selected operating data, such as income from continuing operations by major operating area, or sales by geographical segment or product line. 3. Special items, such as asset dispositions, litigation provisions, asset impairments, tax adjustments, environmental remediation provisions & restructuring & reorganization expenses. 4. Liquidity & capital resource information, such as cash, cash equivalents and marketable securities; dividends; and debt, capital lease and minority interest obligations. 5. Capital expenditures by segment or division. 6. Amounts involved in, and related financial effects of, off-balance sheet arrangements. 7. Amounts involved in guarantees, contractual obligations, legal or environmental claims, and other contingencies. 8. Financial measures or ratios, such as gross margin, return on average capital employed, return on shareholders' equity, current ratio, interest coverage ratio and debt ratio. |
| 2 | Other Items |
| | <ol style="list-style-type: none"> 1. Explanations of critical accounting estimates & related assumptions. 2. Identification of RP and descriptions of transactions with them. 3. Descriptions of nature of off-balance sheet arrangements. 4. Descriptions of guarantees, indemnifications, contractual obligations, litigation or environmental liability cases. 5. Descriptions of changes in legal or regulatory requirements, such as new tax or environmental regulations. 6. General descriptions of the business environment and outlook. 7. Descriptions of trends in market prices of key commodities or raw materials. 8. Contrasts of supply, demand and regulatory circumstances between geographic regions. |

7.8 - Notes on Accounts & Qualification; Audit Report & Certificate



Notes on Accounts vs. Qualifications

Notes on Accounts	Qualifications
Notes represents mngt. stand on a matter & assessment on all matters involving difference of opinion between them and auditors.	Qualification represents auditor disagreement on the matters with Management.
Notes of a qualificatory nature appear in accounts and forms part of F.S.	Qualifications are stated by auditor in the auditor's report.
Mngt. may insist upon auditor for not modifying audit opinion considering that mngt. has disclosed full facts & assessment of matter through notes on F.S.	Auditor needs to exercise his professional judgment to determine whether disclosures in notes alone would suffice or a qualification is needed in audit report.
Notes includes info. which is necessary to make F.S. understandable by users.	Qualification must be expressed by Auditor in a clear & unambiguous manner.

Report and Certificates

Audit Report: Formal statement usually made after an enquiry, examination or review of specified matters under report & includes reporting auditor's opinion thereon.

Certificate: Written confirmation of accuracy of facts stated therein & does not involve any estimate or opinion.

Report	Certificate
Expression of opinion on true & fair view of F.S. and books of account.	Confirmation of correctness & accuracy of subject matter for which certificate is being issued.
Based on practitioner professional judgment.	Based on actual facts and figures.
Scope of audit is wide & generally cover opinion on complete set of F.S.	Scope of certificate is narrow & restricted to subject matter only.
Audit report is generally issued annually as per requirements of statute.	Certificates are issued as per specific requirements of law.
Auditor's responsibility in case any misstatement is not being identified, is subject to his negligence in performance of his duties.	In case of wrong certification, auditor is held liable irrespective of due diligence.

7.9 - Duties of Company Auditor (Sec. 143)



Inquire into Propriety Matters - Sec. 143(1)

- Loans and advances are properly secured and terms are prejudicial.
- Book entries are prejudicial.
- Shares, debentures and other securities are sold at a price less than acquisition cost in case of non-banking and non-investment company.
- Loans and advances made are shown as deposits.
- Personal expenses charged to revenue account.
- Cash has actually been received on shares allotted for cash, if not received, correct position shown in books and balance sheet.

Reporting u/s 143(3)

- Whether auditor has obtained all necessary info. and explanations for audit.
- Whether proper books of account have been maintained.
- Whether branch audit report has been received & manner of dealing with it.
- Whether B/S and P & L Account agree with books of account.
- Whether Financial statements comply with AS.
- Comments on financial transactions or matter having any adverse effect on functioning of the company.
- Whether any director is disqualified u/s 164(2).
- Qualification or adverse remarks w.r.t. maintenance of accounts.
- Whether IFC with reference to F.S. are in place and effectively operated.

Exception: not apply to a private company:

- which is a one-person company or a small company; or
- which has turnover less than ₹ 50 crores as per latest audited F.S. & which has aggregate borrowings from banks or financial institutions or any body corporate at any point of time during FY less than ₹ 25 Cr.

(j) Other matters as prescribed. (Rule 11)

7.9 - Duties of Company Auditor (Sec. 143)



Rule 11

- (a) Whether impact of pending litigations on financial position is disclosed.
- (b) Whether provisions for material Foreseeable losses on long term contracts made.
- (c) Whether there is any delay in transferring amounts to IEPF.
- (d) **Omitted**
- (e) Whether mngt. represented that no funds have been advanced/invested to or in any other entity with understanding, that it shall, lend/invest in other entities identified in any manner by or on behalf of the company or provide any guarantee, security or the like on behalf of Ultimate Beneficiaries.**
Whether mngt. represented that no funds have been received from any entity with understanding that it shall lend/invest in other entities identified in any manner by or on behalf of the Funding Party or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries. Auditor consideration that mngt. representations made under this Rule does not contain any material mis-statement.
- (f) Whether dividend declared or paid during the year is in compliance with section 123 of the Companies Act, 2013.**
- (g) Whether company has used accounting software which has a feature of recording audit trail (edit log) facility and same has been operated throughout year for all transactions recorded in software and audit trail feature has not been tampered with and it has been preserved for record retention.**

Reporting requirements as to managerial remuneration u/s 197(16)

Auditor shall in his report u/s 143, make a statement as to

- whether remuneration paid by company to its directors is in accordance with provisions of Sec. 197;
- whether remuneration paid to any director is in excess of limit laid down u/s 197; and
- give such other details as may be prescribed.

Note: This matter is to be covered in the auditor's report under the Section "report on Other Legal and Regulatory Requirements".

Reporting of Fraud – Sec. 143(12) & Sec. 143(13)

A Reporting to Central Government

If auditor has reason to believe that an offence of fraud involving amount of > ₹ 1 Cr., is committed, in company by its officers or employees, he shall report matter to C.G.

Manner of Reporting (Rule 13)

- ⇒ **Fraud Reported to Audit Committee/BOD within 2 days; seeking their reply within 45 days**
- ⇒ **If reply received, forward his report, reply and comments on reply to C.G. within 15 days**
- ⇒ **If reply not recd., forward his report to C.G. along with a note that reply not recd.**
- ⇒ **Report shall be sent to Secretary, MCA in sealed cover by R.P.A.D. or Speed Post followed by e-mail in confirmation.**
- ⇒ **Report shall be on letter-head of auditor containing postal address, e-mail & mobile number and signed by auditor with his seal and shall indicate his Membership Number.**
- ⇒ **Report shall be in Form ADT-4.**

B Reporting to the Audit Committee or Board

- *In case of a fraud < 1 Cr., auditor shall report matter to audit committee or Board immediately but not later than 2 days of his knowledge of fraud, specifying following:*
 - ⇒ *Nature of Fraud with description;*
 - ⇒ *Approximate amount involved; and*
 - ⇒ *Parties involved.*
- *Disclosures in Board's Report (Rule 13): Following details of each fraud reported to A.C. or Board shall be disclosed in Board's Report:*
 - ⇒ *Nature of Fraud with description;*
 - ⇒ *Approximate Amount involved;*
 - ⇒ *Parties involved, if remedial action not taken; and*
 - ⇒ *Remedial actions taken.*

C Applicability of Sec. 143 – Sec. 143(14)

Provision regarding reporting of fraud shall also apply, mutatis mutandis, to Cost Auditor and a Secretarial Auditor.

D Penalty for Non-Compliance – Sec. 143(15)

- If auditor, cost accountant or CS in practice does not comply with provisions of Sec. 143(12), he shall be liable to a penalty of*
- *₹ 5 lakh in case of a listed company and*
 - *₹ 1 lakh in case of any other company.*

7.10 – CARO, 2020

CARO, 2020 apply to all companies including foreign companies except the following

- (a) Banking Company
- (b) Insurance Company
- (c) Company licensed to operate u/s 8
- (d) One Person Company
- (e) Small Company
- (f) Private limited Company (not being a subsidiary or holding of public co.)
 - Paid up capital + Reserves & Surplus \leq 1Cr. (as on Balance Sheet Date)
 - +
 - Total borrowings from Bank & F.I. \leq 1Cr. (at any point of time during the FY)
 - +
 - Total revenue as disclosed in Schedule III \leq 10 Cr. (for the FY)



Important Notes

1. CARO not apply over audit report on Consolidated F.S. except Para 3(xxi).
2. A company if covered under the definition of small company, it will remain exempted from applicability of the Order even if it falls under any of the criteria specified for private company.

Note: Small company means a company, other than a public company:

- (a) paid-up share capital of which does not exceed ₹ 4 crore; and
- (b) turnover of which as per its last profit and loss account for the immediately preceding financial year does not exceed ₹ 40 crore.




Matters to be reported under CARO 2020

Para No.	Reporting Area	Reporting Requirements
3(i)	Fixed Assets	<ul style="list-style-type: none"> • Whether proper records maintained. • Whether physical verification has been conducted at reasonable intervals by mngt. • Whether material discrepancies noticed and if so, whether dealt properly in books. • Title deeds of immovable properties are held in name of Co., if not provide details. • Whether company has revalued its PPE or intangible assets or both during year &, if so, whether revaluation is based on valuation by a Regd. Valuer; specify amount of change, if change is \geq10% in aggregate of net carrying value of each class of PPE or intangible assets. • Whether any proceedings have been initiated or are pending against company for holding any benami property under Benami Transactions (Prohibition) Act, 1988 & its rules; if so, whether company has appropriately disclosed details in its F.S.
3(ii)	Inventories	<ul style="list-style-type: none"> • Whether physical verification has been conducted at reasonable intervals by mngt. • Whether coverage & procedure of verification by mngt. is appropriate; whether any discrepancies of \geq10% in aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in books of account; • Whether company has been sanctioned working capital limits $>$ ₹ 5 crores, in aggregate, from banks or FI on basis of security of current assets; whether quarterly returns or statements filed by the company with such banks or FI are in agreement with the books of account of the Company, if not, give details.

Para No.	Reporting Area	Reporting Requirements
3(iii)	Investments, Guarantee/ Security, Loans or Advances	<p><i>Whether company made investments in, provided any guarantee or security or granted any loans or advances in nature of loans, secured or unsecured, to companies, firms, LLPs or any other parties, if so,</i></p> <p><i>(a) whether company has provided loans or provided advances in nature of loans, or stood guarantee, or provided security to any other entity, if so, indicate:</i></p> <p><i>(A) aggregate amount during year & balance o/s at balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, JVs and associates;</i></p> <p><i>(B) aggregate amount during year & balance outstanding at balance sheet date with respect to such loans or advances and guarantees or security to parties other than subsidiaries, JVs and associates;</i></p> <p><i>(b) whether investments made, guarantees provided, security given and terms and conditions of grant of all loans and advances in nature of loans and guarantees provided are not prejudicial to company's interest;</i></p> <p><i>(c) in respect of loans & advances in nature of loans, whether schedule of repayment of principal & payment of interest has been stipulated & whether repayments or receipts are regular;</i></p> <p><i>(d) if amount is overdue, state total amount overdue for > 90 days, & whether reasonable steps have been taken by company for recovery of principal & interest;</i></p> <p><i>(e) whether any loan or advance in nature of loan granted which has fallen due during year, has been renewed or extended or fresh loans granted to settle overdues of existing loans given to same parties, if so, specify aggregate amount of such dues renewed or extended or settled by fresh loans and percentage of aggregate to total loans or advances in nature of loans granted during year [not applicable to companies whose principal business is to give loans];</i></p> <p><i>(f) whether company has granted any loans or advances in nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify aggregate amount, percentage thereof to total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in Sec. 2(76) of the Companies Act, 2013.</i></p>
3(iv)	Compliance of Provisions of Secs. 185 & 186	<ul style="list-style-type: none"> In respect of loans, investments, guarantees, and security If not, provide the details thereof.
3(v)	Public Deposits	<ul style="list-style-type: none"> Directives by RBI and Secs. 73 to 76 complied with. If not - nature of contravention. Order passed by CLB/RBI/Court/Tribunal-Whether complied with or not.
3(vi)	Cost Records	<ul style="list-style-type: none"> Whether Specified u/s 148(1); If yes, whether accounts and records made and maintained.
3(vii)	Statutory Dues	<ul style="list-style-type: none"> Whether undisputed GST, PF, ESI, IT, ST, Custom, Excise, VAT, cess & Other – paid regularly. If not outstanding >6 months as on Balance Sheet Date. W.r.t. disputed statutory dues – state amount involved & forum where dispute is pending.
3(viii)	Unrecorded Income	<ul style="list-style-type: none"> <i>Whether any transactions not recorded in books of account have been surrendered or disclosed as income during the year in the tax assessments under the I-tax Act, 1961,</i> <i>if so, whether previously unrecorded income has been properly recorded in books of a/c during the year.</i>
3(ix)	Repayment of Dues	<p><i>(a) Whether co. defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and amount of default to be reported.</i></p> <p><i>(b) Whether company is a declared wilful defaulter by any bank or F.I. or other lender;</i></p> <p><i>(c) Whether term loans were applied for purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported;</i></p> <p><i>(d) Whether funds raised on short term basis have been utilised for long term purposes, if yes, nature and amount to be indicated;</i></p> <p><i>(e) Whether company has taken any funds on account of or to meet obligations of its subsidiaries, associates or JVs, if so, details thereof with nature of such transactions and amount;</i></p> <p><i>(f) whether company has raised loans during year on pledge of securities held in its subsidiaries, JVs or associate companies, if so, give details thereof and also report if company has defaulted in repayment of such loans raised.</i></p>



Para No.	Reporting Area	Reporting Requirements
3(x)	<i>Money raised by public issue & term loans</i>	<ul style="list-style-type: none"> • Whether moneys raised by way of IPO or FPO applied for purposes for which those are raised, if not, details together with delays or default & subsequent rectification, if any. • Whether Co. has made preferential allotment or private placement of shares or convertible debentures during year and if so, whether requirements of sec. 42 and 62 of Companies Act, 2013 have been complied with and funds raised have been used for purposes for which funds were raised, if not, provide details in respect of amount involved & nature of non-compliance.
3(xi)	<i>Fraud</i>	<ul style="list-style-type: none"> • Whether any fraud by company or any fraud on Company has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated. • Whether any report u/s 143(12) of Companies Act has been filed by auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with C.G.; • Whether auditor has considered whistle-blower complaints received by company.
3(xii)	<i>Nidhi Companies</i>	<ul style="list-style-type: none"> • Whether Nidhi Co. has complied with Net Owned Fund to Deposits in ratio of 1:20; • Whether Nidhi Company is maintaining 10% unencumbered term deposits to meet out liability. • Whether there has been any default in payment of interest on deposits or repayment thereof and if so, the details thereof.
3(xiii)	<i>Transaction with Related Parties</i>	<ul style="list-style-type: none"> • Whether all transactions with RP are in compliance with Secs. 177 & 188 of Companies Act, 2013; and • details have been disclosed in the F.S. as required by the applicable ASs.
3(xiv)	<i>Internal Audit System</i>	<ul style="list-style-type: none"> • Whether company has internal audit system commensurate with size & nature of business; • Whether reports of Internal Auditors were considered by statutory auditor.
3(xv)	<i>Non-cash transactions with Directors</i>	<ul style="list-style-type: none"> • Whether co. has entered into any non-cash transactions with directors or persons connected with him; • If so, whether provisions of Section 192 of Companies Act, 2013 have been complied with.
3(xvi)	<i>Registration with RBI</i>	<p>(a) Whether regn. is required u/s 45-IA of RBI Act, 1934 and if so, whether regn. has been obtained.</p> <p>(b) Whether company has conducted any Non-Banking Financial or Housing Finance activities without a valid CoR from the RBI;</p> <p>(c) Whether company is a Core Investment Company (CIC), if so, whether it continues to fulfil criteria of a CIC, and in case company is an exempted or unregistered CIC, whether it continues to fulfil such criteria;</p> <p>(d) Whether Group has more than one CIC as part of the Group, if yes, indicate the number of CICs which are part of the Group;</p>
		
3(xvii)	<i>Cash Losses</i>	<ul style="list-style-type: none"> • Whether company has incurred cash losses in the FY and in the immediately preceding FY, • If so, state the amount of cash losses;
3(xviii)	<i>Considerations of issues raised by outgoing auditor</i>	<ul style="list-style-type: none"> • Whether there has been any resignation of the statutory auditors during the year, • If so, whether auditor has considered issues, objections or concerns raised by the outgoing auditors.
3(xix)	<i>Existence of Material uncertainty as to company ability to meet its liabilities</i>	<i>On basis of financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying F.S., auditor's knowledge of BOD and management plans, whether auditor is of opinion that no material uncertainty exists as on date of audit report that company is capable of meeting its liabilities existing at date of balance sheet as & when they fall due within a period of 1 year from the balance sheet date.</i>
3(xx)	<i>Transfer of unspent CSR amount</i>	<ul style="list-style-type: none"> • Whether, in respect of other than ongoing projects, company has transferred unspent amount to Fund specified in Schedule VII to Companies Act within a period of 6 months of expiry of FY in compliance with 2nd proviso to Sec. 135(5) of the said Act; • Whether any amount remaining unspent u/s 135(5), pursuant to any ongoing project, has been transferred to special account in compliance with provision of Sec. 135(6) of said Act.
3(xxi)	<i>Remarks in CARO Reports of group companies</i>	<ul style="list-style-type: none"> • Whether there have been any qualifications or adverse remarks by respective auditors in CARO reports of companies included in consolidated F.S., • If yes, indicate details of companies and paragraph no. of CARO report containing qualifications or adverse remarks.