

# **Documentation requirements under Standards on Auditing (SAs)**

**Presented By**

**C.A. Abhijit Sanzgiri**

**December 22, 2018**

# Standards on Auditing

Ensures information in FS is of high quality & acceptable worldwide

Formulated by AASB under ICAI in line with IAASB & are **MANDATORY**

cohesive set of guidelines & not to be viewed in isolation

Codification of professional best practices promoting uniformity & comparability



# Auditors Responsibility

We conducted our audit in accordance the SA's issued by the ICAI – These Standards require that we comply with the ethical requirements & plan & perform the audit to obtain reasonable assurance whether the financial statements are free from MM

# Material Misstatement (MM)

Material - important, significant, substantial  
Misstatement – false incorrect statement

MM is untrue information in FS that could affect the financial decision of one who relies on the statement / misleads users

MM – not true and fair

MM - result of omissions - errors of transactions & balances

True and Fair – Factually correct & faithfully represent without bias

Faithfully represent economic substance of the transaction rather than the legal form

Over-under valuation of asset/ liability

Omission of asset / liability

Non disclosure of charges on assets

Accounting policies not followed consistently  
unusual- exceptional, non recurring items not disclosed separately

Accounts not drawn as per ARFF / Schedule III of Co's Act

Non Compliance with AS - Sec 143(3)(e) / IFRS - disclosure of deviation with reasons & financial impact

# Standards on Auditing

## 1. Standards of Quality Control (SQC)

All services under Engagement Standards.  
Performance of audits & reviews of historical financial information - Assurances & related service engagements.

## 2. Standards on Auditing (SAs)

Any independent audit of historical financial information

# Standards on Auditing

(Continued)

## **3. Standards on Review Engagements (SREs)**

Review of historical financial information

## **4. Standards on Assurance Engagements (SAEs)**

other than audits & reviews of financial information

## **5. Standards on Related Services (SRSs)**

engagements on application of agreed procedures to information, compilation engagements, & other related service engagements

# NFRA

Co's Act, 2013 provided for creation of National Financial Reporting Authority (NFRA)

Sec 143(10) / (11)

MCA notification - 13.1.18, framed (NFRA) Rules, 2018 determining jurisdiction, function duties & powers.

# NFRA

(Continued)

regulates accounting & audit standards / service quality of Cos -

- with securities listed in India / outside
- Unlisted Co's on March 31 of immediately preceding FY -
  - Paid up capital > Rs 500 crore; or
  - Annual turnover > Rs 1,000 crore; or
  - O/S loans, Debentures & deposits > Rs 500 crore
- Insurance & Banking Co's
- engaged in generation or supply of electricity
- large offshore subsidiaries & associates of these Co's  
(if it's income or NW > 20% of income or NW of parent company)

# NFRA

(Continued)

## **Key Functions & Duties -**

protect interest of public, investors, creditors & others associated with Co's by

- establishing high quality accounting & auditing standards
- exercising effective functional oversight on accounting of Co's & auditing of auditors.

# NFRA

(Continued)

## **Monitoring Compliance:**

review FS, seek further information from Co's & auditors to enforce compliance with accounting & auditing standards.

Publish findings on non-compliances on website in a manner it deems fit, unless it reasons not to do so in public interest & records the same in writing.

# 1. Institution of NFRA

(Continued)

## **Powers of NFRA:**

Direct auditors to take measures to improve audit quality.

Investigation Powers into professional misconduct.

Imposing monetary penalty &/or debarring an audit member or firm in case of professional & other misconduct.

# Current Status

(Continued)

## 2. Uday Kotak

*“1 of the weakest links in fiduciary chain of governance in India is accounting. Time & again we find that this situation is leading to significant issues for many listed companies whether on equity or debt markets.”*

said at a corporate governance summit.



## 2. Uday Kotak

(Continued)

Auditors are 1 of the "weakest link" plaguing corporate governance architecture in country.

Issue in the profession stems from a potential "conflict of interest" where an association of accountants, [ICAI](#) also acts as sector regulator.

6 layers of corporate governance in our system, including company management, company board, credit rating agencies, auditors & regulators. Of late, these six layers' work has been found wanting & they are not doing their job".

# Satyam Scam

On corporate governance & fraudulent auditing practices allegedly in connivance with auditors & CA's.

Misrepresentation of accounts to its board, stock exchanges, regulators, investors & other stakeholders.

Misleading market & other stakeholders by lying about Co's financial health & basic facts on revenue, profits, liabilities & inflating cash balance to show good health.

# Satyam Scam

(Continued)

Questioned -

Role of external 3rd party auditors, tasked to ensure that no financial bungling is undertaken & who carried out promoters' interest & hid facts,



# Enron Scam

Enron - American energy company in Houston, Texas, Est 1985 - Kenneth Lay

CEO developed a staff of executives that used accounting loopholes, special purpose entities, & poor financial reporting to hide billions of dollars in debt from failed deals & projects.



# Enron Scam

(Continued)

Enron scam eventually led to its bankruptcy & dissolution of Arthur Andersen, then 1- 5 largest audit/accountancy partnerships in the world.

CFO & other executives not only misled Enron's Board of Directors & Audit Committee on high-risk accounting practices, but also pressured Arthur Andersen to ignore issues.

Some officials at Arthur Andersen LLP, Enron's accountant, began shredding documents related to Enron audits.

Andersen found guilty of illegally destroying documents relevant to SEC investigation, which voided its license to audit public companies & effectively closed the firm.

# Enron Scam

(Continued)

Consequentially, new regulations & legislation enacted to expand accuracy of financial reporting for public companies.

1 legislation, Sarbanes-Oxley Act, increased -

- Penalties for destroying, altering, fabricating records in investigations & for defrauding shareholders.
- Accountability of auditing firms to remain unbiased & independent of their clients.

# Documentation

- Such adverse Scams/Frauds seriously affects reputation of Profession
- Urgent need for Profession to establish credibility & recreate Trust
- Audit will have to function transparently & demonstrate conduct of quality audits
- Adherence to SA's in letter & spirit is the start to demonstrate quality & importantly Trust
- **COMMUNICATE BETTER TRANSPARENTLY**

# Documentation

Hence, important to conduct audit as per SA & adequately document the same to serve as an audit trail to ensure NIL error or negligence in discharge of professional duties

Auditor guilty of professional misconduct if he fails to comply with the requirements of SA's



# Documentation

## SA 230 - Audit Documentation

### Documentation requirements under:

SA 220

SA 240

SA 250

SA 260

SA 265

SA 299

SA 300

SA 315

SA 320

SA 330

SA 450

SA 540

SA 550

SA 610

SA 701

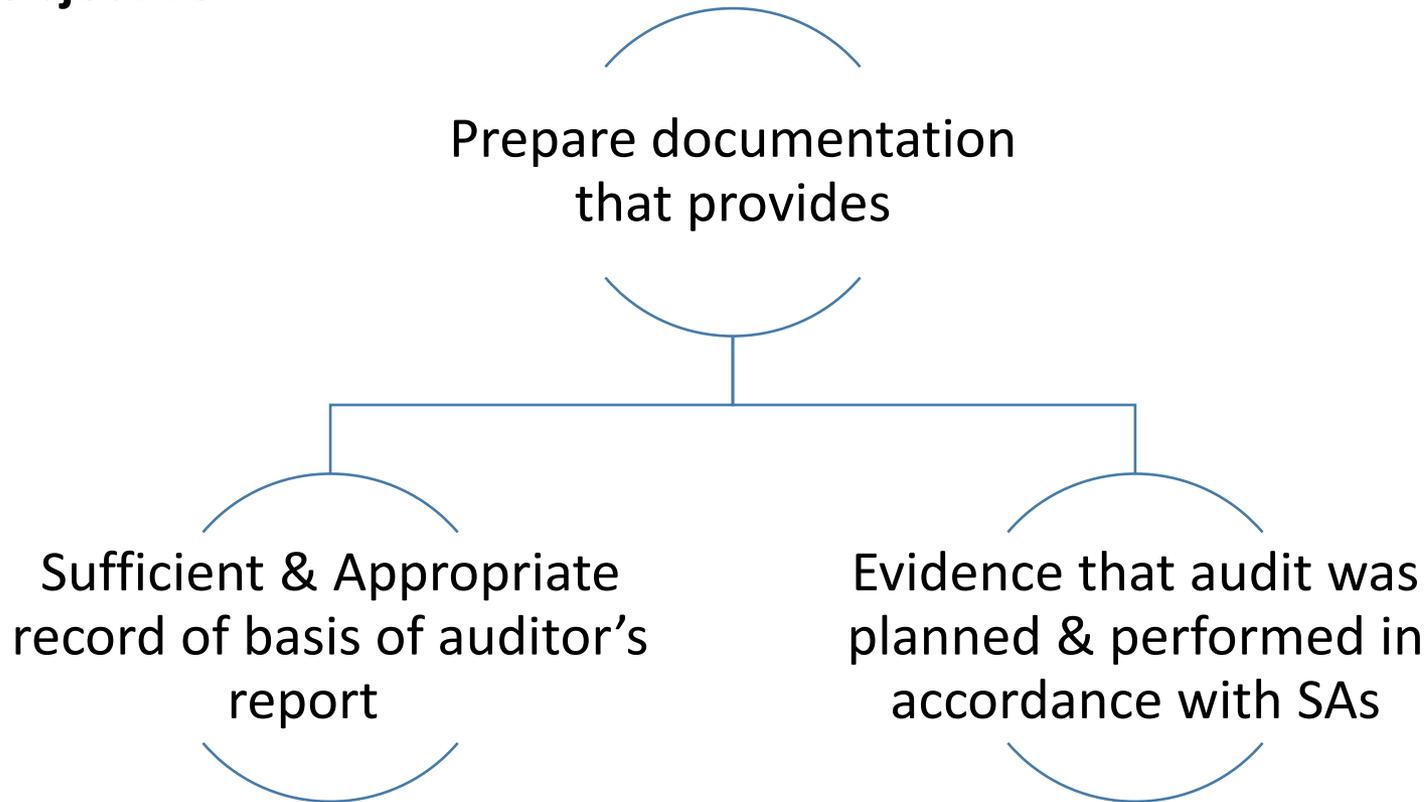


# Documentation -

- record of audit procedures performed, relevant audit evidence obtained & conclusions reached (working – work papers)
- assists planning, performing, accountability & responsibility fixation, audit supervision & review
- record retention for future audits, & conduct of quality controls (SQC 1).

# SA 230-Audit Documentation:

- **Objective:**



# SA 230-Audit Documentation:

- Provides
  - I. evidence of auditor's basis to conclude on achieving overall audit objectives ; &
  - II. evidence that audit was planned & performed as per SAs & applicable legal, regulatory requirements.
- Timely, sufficient & appropriate audit documentation enhances audit quality,
- facilitates effective review & evaluation of audit evidence obtained & conclusions reached before finalizing audit reports.

# SA 230: What to document

- Discussions of significant matters & it's nature – when & with whom (management, TCWG & others) it took place.
- prepare & retain a summary (Completion Memorandum) describing significant matters identified & addressed during audit
- Review of audit work by review of audit documentation.
- (SQC) 1 -Firms to establish policies & procedures for completion of assembly of audit files (within 60 days of date of audit report)

# SA 230: What to document

- SQC 1 - Firms to establish policies & procedures for retention of engagement documentation > 7 years from date of audit report / group auditor's report.
- ICAI - Implementation guide to SA 230 - FAQs, checklist, case studies & illustrative working paper formats

# Documentation Requirements under SA 220- Quality Control for an Audit of FS

- a) Issues identified w.r.t compliance with relevant ethical requirements & how they were resolved.
- b) Conclusions on
  - compliance with independence
  - acceptance & continuance of client relationships & audit engagements.

Nature & scope of, & conclusions resulting from, consultations undertaken during course of audit engagement.

Documentation to be sufficiently complete & detailed to make understand –

- Issue that is consulted
- Consultation results, decisions taken, basis for the decision & its implementation.

# Documentation Requirements under SA 220- Quality Control for an Audit of FS

**Engagement quality control reviewer** to document

- procedures as per firm's policies on EQCR are performed;
- EQCR is completed on/ before signing the audit report &
- awareness of any unresolved matters that render inappropriate, significant judgments made & conclusions of the Engagement team.

# Documentation Requirements under SA 315

1. Understanding of entity & its environment; &
2. Assessment of risks of MM -
  - Significant decisions reached during discussion with engagement team w.r.t. susceptibility of entity's FS to MM due to fraud; &
  - identified & assessed risks of MM due to fraud at
    - FS level; &
    - Assertion level.

# Documentation Requirements under SA 330

document responses to assessed risks of MM:

1. Overall responses to assessed risks of MM due to fraud at FS level & NTE of audit procedures & its linkage with assessed risks of MM due to fraud at assertion level; &
2. Results of audit procedures designed to address risk of management override of controls.

Communications on fraud made to management, TCWG & regulators w.r.t. susceptibility of entity's FS to MM & application of AFRF

# Documentation Requirements under SA 260- Communication with TCWG

Auditor shall document:

- 1. Copies of records or documents relating to identified or suspected non-compliance.
- 2. Minutes of discussions with management & TCWG or parties outside the entity.

# Documentation Requirements under SA250 - Consideration of Laws & Regulations in an Audit of FS

Document *identified* or *suspected* non-compliance with laws & regulations & results of discussion with management, TCWG & other parties outside entity.

## Documentation Requirements under SA 260 (Revised) Communication with TCWG

In case of oral communication, auditor to document what was communicated, when & to whom. In written communications, the copy to be retained as part of the audit documentation.

# Documentation Requirements under SA 265 Communicating Deficiencies in IC to TCWG & Management

Document communications on –

- a) significant IC deficiencies identified during audit to TCWG
- b) other IC deficiencies not communicated to management by other parties which in auditor's professional judgment, are of sufficient importance to merit management's attention.

# Documentation Requirements under SA 299 Revised JA of FS

Document JA plan:

- a) Identifying division of audit areas & common audit areas amongst JAs defining scope of work of each JA
- b) Ascertaining reporting objectives of engagement for planning timing of audit & nature of communications required;

Documenting work allocation to avoid disputes or confusion among JA on work scope

At planning stage, risks of MM to be considered & assessed by each JA & communicated to other JAs & documented, whether pertaining to overall FS level or area of allocation among other JAs

# Documentation Requirements under SA 299 Revised JA of FS

- JAs -
- to discuss, document NTE of audit procedures for common & specific allotted audit areas to each JA & communicate to TCWG
- to obtain common engagement letter & MRL
- to sign Work allocation document & communicate it to TCWG
  
- to communicate to all other JA's, before work completion - matters that he comes across in course of audit, relevant to areas of responsibility of other JAs, deserving attention or application of judgment.

# Documentation Requirements under SA 300 Planning an Audit of FS

## **1. Overall audit strategy;**

- Record of key decisions considered necessary to properly plan audit & communicate significant matters to engagement team.
- summarize overall audit strategy in a memorandum that contains key decisions regarding overall scope, timing & conduct of audit.

## **2. Audit plan**

Record of planned NTE of risk assessment procedures & such procedures at assertion level in response to assessed risks

## **3. Any significant changes made during audit engagement to overall audit strategy or audit plan, and reasons for such change**

To be recorded

# Documentation Requirements under SA 315 Identifying and Assessing the Risks of MM through Understanding the Entity and Its Environment

1. Record Engagement Team discussion on susceptibility of entity's FS to MM, application of AFRF & significant decisions reached;
2. Key elements of understanding obtained on each aspect of entity, it's environment, each IC components, sources of information from which understanding was obtained & risk assessment procedures performed;
3. Identified & assessed risks of MM at FS level & at assertion level;
4. Risks identified, & related controls on which auditor has obtained an understanding.

# SA 315 Identifying a & Assessing Risks of MM through Understanding the Entity & Its Environment

- Documentation manner – matter of auditor’s professional judgment.
- Documentation Form & extent - influenced by nature, size & complexity of entity, its IC, availability of entity information, audit methodology & technology used in course of audit.
- Documentation to be simple & brief for entities with uncomplicated businesses & financial reporting processes.

Only Key elements of auditor’s understanding of assessed risks of MM to be documented Not necessary to document entirety of auditor’s understanding of entity & related matters.

- Certain documentation may be carried forward, updated as necessary to reflect changes in entity’s business or processes in Recurring audits

# Documentation Requirements under

## SA320 Materiality in Planning & Performing an Audit

Amounts & Factors considered in determination of:

- a) Materiality for FS as a whole;
- b) Materiality level or Levels for particular classes of transactions, account balances or disclosures;
- c) Performance materiality; &
- d) Any revision of (a) to (c)

# Documentation Requirements under SA 330 - Auditor's Responses to Assessed Risks

- a. Overall responses to address assessed risks of MM at FS level, & NTE of further audit procedures performed;
- b. Linkage of those procedures with assessed risks at assertion level;
- c. Results of audit procedures where conclusions are not clear.
- d. document conclusions on reliance on operating effectiveness of controls tested in earlier audits, if planned to be used in CY audits.

Documentation to demonstrate that FS agree or reconcile with underlying accounting records.

# Documentation Requirements under SA 450

## Evaluation of Misstatements Identified During Audit

- (a) Amount below which misstatements are regarded as clearly trivial;
- (b) All misstatements accumulated during audit & their correction &
- (c) Audit conclusion & its basis whether uncorrected misstatements are material, individually or in aggregate

# Documentation Requirements under SA 450 Evaluation of Misstatements Identified During the Audit

Documentation of uncorrected misstatements to consider -

(a) Evaluation of Aggregate effect of uncorrected misstatements;

1. whether materiality level/s for particular classes of transactions, account balances or disclosures, are exceeded; &
2. effect of uncorrected misstatements on key ratios, trends, compliance with legal, regulatory & contractual requirements

# Documentation Requirements under SA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, & Related Disclosures

- a) Basis for auditor's conclusions on reasonableness of accounting estimates & their disclosure giving rise to significant risks;
- b) Indicators of possible management bias, if any.
- c) Documenting indicators identified during audit assists auditor in
  1. concluding whether risk assessment & related responses remain appropriate, &
  2. evaluating whether FS as a whole are free from MM.

## Documentation Requirements under SA 550 Related Parties

- a) Names of identified related parties
- b) Nature of related party relationships.

# Documentation Requirements under SA 610- Using the work of Internal auditor

- Evaluation of existence & significance of threats to objective of IA & level of competence of internal auditors used to provide assistance.
- Basis for decision regarding nature & extent of work performed by IA.
- Who reviewed the work performed & date & extent of review as per SA 230
- Written agreement obtained from an authorised representative of the entity & IA &
- Work papers prepared by IA who provided direct assistance on audit engagement.

# Documentation Requirements under SA 701- Communicating Key Audit matters in the independent audit report

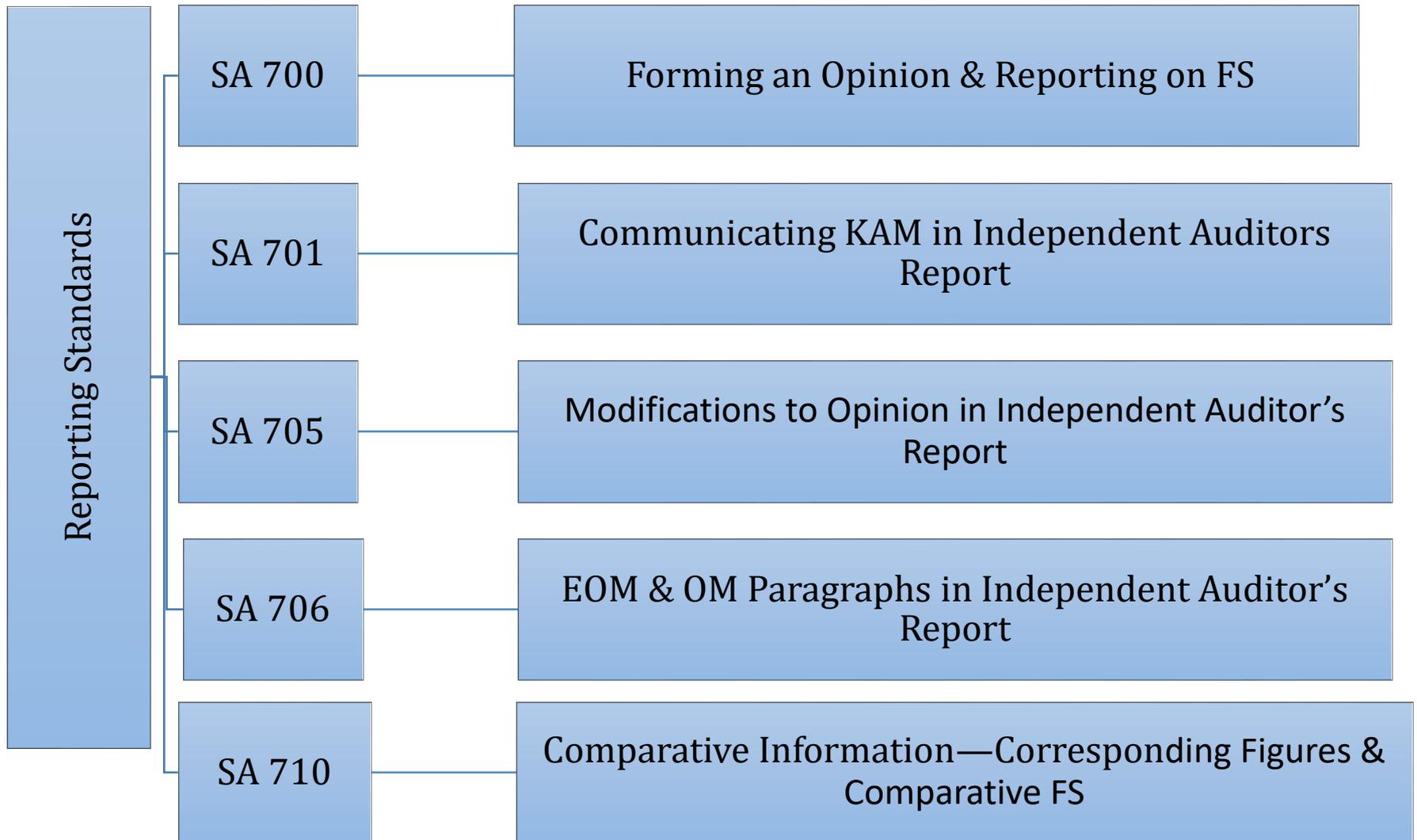
- (a) Matters that required significant auditor attention & rationale for auditor's determination on whether a matter is KAM; or
- (b) Where applicable, rationale for auditor's determination that there are no KAM to communicate
- (c) Where applicable, rationale for auditor's determination not to communicate in the auditor's report a matter determined as KAM

# **Reporting Standards on Auditing**

**Presented By  
C.A. Abhijit Sanzgiri**

**December 22, 2018**

# List of Standards on Auditing on Reporting:



# SA 700 (Revised)- “Forming an Opinion & Reporting on FS”

## Objective

```
graph TD; A[Objective] --> B[Form opinion on FS - on evaluation of conclusions drawn from audit evidence obtained]; A --> C[To clearly express an opinion through a written report.]
```

Form opinion on FS - on evaluation of conclusions drawn from audit evidence obtained

To clearly express an opinion through a written report.

# Requirements :

## Forming an Opinion on FS -

- FS are prepared in all material respects according to FRF
- Auditor's conclusion – that he has obtained reasonable assurance - FS as a whole are free from MM, (due to fraud or error)
- **SA 330**, - sufficient appropriate audit evidence is obtained;
- **SA 450** - Uncorrected misstatements are material, individually or in aggregate; & Evaluations on certain matters as outlined
- **FS** – structured presentation of historical financial information including related notes intended to show entity's economic results & position as per AFRF

# Financial Reporting Framework

- FRF adopted by Management & where appropriate by TCWG –
- In the preparation & presentation of FS
- That is acceptable in view of –
  - A) Nature of the entity
  - B) Objective of FS
  - C) Required by law or regulation
- Encompasses –
- Reporting standards established by ICAI / NFRA / legislative & regulatory requirements

# Requirements :

➤ Auditor to evaluate -

- adequate disclosure & application of significant accounting policies.
- consistency in accounting policies.
- reasonability of Management accounting estimates
- relevant, reliable, comparable & understandable FS
- adequate disclosure to enable users to understand effect of material transactions.
- usage of appropriate terminology

# Forming an Opinion on FS - Auditors Evaluations:

- Audit conclusion - obtain reasonable assurance that FS as a whole are free from (MM), due to fraud or error –
  - SA 330 - obtain sufficient appropriate audit evidence on assessed risk & design / implement appropriate risk responses.
  - SA 450 - evaluate effect of identified / uncorrected misstatements - material, individually or in aggregate.

# Forming an Opinion on FS - Auditors Evaluations:

## ➤ Auditor's evaluation –

- Preparing FS in all material respects, as per AFRF
- Consider all qualitative aspects of entity's accounting practices & indicators of possible bias in management's judgments

# Form an Opinion

## Unmodified opinion:

FS present fairly, in all material respects, in accordance with [FRF];

FS give a true and fair view in accordance with [AFRF].

## Modified opinion:

FS are not free from MM,

or

unable to obtain appropriate audit evidence to conclude that FS as a whole are free from MM,

# Auditor's Report Content:

Title

Addressee

Auditor's Opinion

Basis of Opinion

Going Concern

Key Audit Matter

# Auditor's Report Content:

Responsibilities for FS

Auditor's Responsibilities for audit of FS

Other Reporting Responsibilities

Signature of Auditor

Auditor's Address

Date of Audit Report

# Auditor's Report Format:

## Auditors' Opinion -

- *"Introductory Paragraph"* - Unmodified opinion, -
  - presented fairly, in all material respects, **or**
  - Give a true and fair view in accordance with the AFRF.

## Basis of Opinion:

- (a) Audit conducted as per SA;
- (b) Refer Section describing auditor's responsibilities under SAs;
- (c) Include a statement that auditor is independent of the entity as per relevant ethical requirements relating to audit & has fulfilled other ethical responsibilities as per ICAI Code of Ethics.
- (d) Auditor believes that audit evidence obtained is sufficient & appropriate to provide a basis for audit opinion.

# Auditor's Report Format:

## Going Concern:

Where applicable, Auditor shall report as per SA 570 (Revised) on **GC**

## Key Audit Matters (KAM)

audits of complete sets of GPFS of listed entities - communicate KAM in the auditor's report as per SA 701.

otherwise required by law or regulation or decides to communicate KAM in auditor's report, to do so as per SA 701.

# Auditor's Report Format:

## Responsibilities for FS

- (a) preparing FS as per AFRF, & for such IC as management determines necessary to prepare FS free from MM, whether due to fraud or error;
- (b) assessing entity's ability to continue as **GC**, whether usage of GC basis of accounting is appropriate & disclosing GC matters if applicable.

Identify those responsible for oversight of financial reporting process, when those responsible for such oversight differ from those who fulfill responsibilities described above.

**IC** – process designed by management or TCWG to provide reasonable assurance wrt reliability of financial reporting, effectiveness of efficiency of operations, safeguarding of assets & compliance of applicable laws & regulations

# Auditor's Report Format:

## Auditors' Responsibilities wrt objectives of audit -

- (a) obtain reasonable assurance – FS are free from MM, due to fraud or error.
- (b) issue an auditor's report that includes auditor's opinion.

- Give reasonable assurance - high level of assurance, (not a guarantee) - audit conducted as per SAs will always detect a MM if it exists
- exercise professional judgment & maintain professional skepticism throughout the audit.
- **Skepticism** – attitude of a questioning mind, critical assessment of audit evidence, being alert to conditions indicating possible mis-statements due to fraud or error
- **Professional judgment** – making proper decisions wrt materiality, audit risk, NTE of audit procedures, sufficiency & appropriateness of audit evidence

# Auditor's Report Format:

## Auditors' Responsibilities

- Identify & assess risk of MM
- Design & perform audit procedures responsive to those risks
- Obtain sufficient & appropriate audit evidence to provide basis for audit opinion.
- Obtain an understanding of IC relevant to audit
- Evaluate appropriateness of accounting policies used & reasonableness of accounting estimates & related management disclosures .
- Conclude on appropriateness of management's use of GC basis of accounting
- Evaluate overall presentation, structure & content of FS including disclosures.

# Auditor's Report Format:

## Auditor's Report Prescribed by Law or Regulation

- Usage of a specific layout / wording, only if it includes, at a minimum –
  - Title.
  - Addressee
  - Opinion section [expressing an opinion on FS & reference to applicable FRF ]
  - Identification of the entity's FS that is audited.
  - Statement - Auditor is independent of the entity.
  - Going Concern - Where applicable
  - If applicable, a section that includes information required by SA 701
  - Description of management's responsibilities
  - Refer to SA's, law or regulation, describe auditor's responsibilities for an audit

# SA 701 - “Communicating KAM in Independent Auditor’s Report”

- SA 701 - Auditor’s responsibility to communicate KAM in auditor’s report.
- Intention - to address:
  - Auditor’s judgment as to what to communicate in auditor’s report &
  - Form & content of such communication.
- Purpose - enhance communicative value of auditor’s report by providing greater transparency about the audit.
- **Objectives:**

Determine KAM & having formed an opinion on FS communicate those matters by describing them in audit report.

# Determining Key Audit Matters:

Auditor shall determine KAM in audit of FS for current period based on –

- (a) Areas of significant risks identified as per SA 315.
- (b) Significant auditor judgments in areas involving significant management judgment - Accounting estimates identified as having high estimation uncertainty.
- (c) Effect on audit of significant events or transactions that occurred during the period.

# Communicating Key Audit Matters

- Description of each KAM section shall address:
  - (a) Why the matter was considered to be of most significance & determined to be KAM
  - (b) How the matter was addressed in the audit.
- Auditor shall describe each KAM in the auditor's report unless:
  - (a) Law or regulation precludes public disclosure about the matter;
  - (b) Auditor determines that the matter should not be communicated as adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

# **KAM in case of modified opinion or circumstances affecting going concern**

A matter giving rise to a modified opinion (SA 705) or a material uncertainty related to events or conditions casting significant doubt on the entity's ability to continue as GC (SA 570), are by their nature KAM

The auditor shall:

(a) Report on these matter(s) in accordance with applicable SA(s);

(b) Refer to basis for Qualified (Adverse) Opinion or Material Uncertainty related to GC in KAM

# SA 701 -“Communicating KAM in Independent Auditor’s Report”

SA-701

(KAM) - not a separate opinion on Individual matters but communicated in context of auditor’s opinion on FS as a whole.

*Not a substitute for -*

*1) Disclosure of applicable (FRF)*

*2) Modified opinion as per SA 705*

*3) Reporting when material uncertainty exists under SA 570*

*4) Separate opinion on Individual matters.*

# KAM communicated globally –

- Asset impairments other than Goodwill
- Revenue ( not mentioning Fraud )
- Allowance for Doubtful debts
- Goodwill impairments
- Valuation of Deferred Tax assets
- Investments
- Going Concern
- IT related issues
- Significant employee attrition
- Legal Issues
- Leases

# KAM communicated globally –

- Contingent Liabilities
- Related parties
- Fraud in revenue recognition
- Management override of controls
- Acquisitions
- Fixed assets & depreciation
- Inventory valuation
- Provisions
- Financial Instruments
- Consolidation issues
- Changes in Accounting policies

# KAM communicated globally –

- Changes in Controls / regulations
- Supplier relations
- ESOPs
- Exceptional items
- Accruals
- hyper inflation
- Re-instatement of accounts
- Accounting for long term contracts

# Documentation:-

➤ Auditor shall document -

(a) Matters that required significant auditor attention & rationale for determining whether or not each of these matters is a KAM; or

(b) Where applicable, the rationale for determining there are no KAM to communicate in the auditor's report

(c) Where applicable, the rationale for determining on not to communicate in the auditor's report a matter determined as KAM

# SA705 (Revised): Modification to opinion in Independent Auditor's Report

## **Objective:**

- (a) Auditor concludes, based on audit evidence obtained, that FS statements as a whole are not free from MM; or
- (b) Auditor is unable to obtain sufficient appropriate audit evidence to conclude that FS as a whole are free from MM.

## ➤ Three types of modified opinions:

- Qualified opinion,
- Adverse opinion, and
- Disclaimer of opinion.

# Types of Modified Opinion

FS are materially Misstated

Material & Pervasive

Adverse Opinion

Material but not Pervasive

Qualified Opinion

Unable to obtain SAAE

Material but not Pervasive

Qualified Opinion

Material and Pervasive

Disclaimer of Opinion

# Requirements:

## Circumstances When a Modification to the Auditor's Opinion Is Required:

- (a) Auditor concludes that, based on the audit evidence obtained, the FS as a whole are not free from MM;
- or
- (b) Auditor is unable to obtain sufficient appropriate audit evidence to conclude that FS as a whole are free from MM. {Fraud Risk}

## Communication to TCWG:

When auditor expects to modify the opinion in his audit report, he shall communicate with TCWG the circumstances that led to the expected modification & the wording of the modification.

### **In case of limitation impose by management,**

The auditor shall communicate the matter to TCWG unless all of TCWG are involved in managing the entity

# SA706(Revised): EOM / OM Paragraphs in Independent Auditor's Report

- **Objective:**

Draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in audit report,

- Matter, although appropriately presented / disclosed in FS, is of such importance is fundamental to users' understanding of FS; or
- As appropriate, any other matter relevant to users' understanding of the audit, auditor's responsibilities or the auditor's report.

# Definitions:

## **(a) Emphasis of Matter paragraph**

refers to a matter appropriately presented or disclosed in FS that, in auditor's judgment, is of such importance that it is fundamental to users' understanding of the FS

## **(b) Other Matter paragraph**

refers to a matter other than those presented or disclosed in FS that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report

## Circumstances where EOM is necessary:-

Certain specific standards have specific requirements to include of EOM in audit report in certain circumstances -

- FRF prescribed by law or regulation is unacceptable but for the fact that it is prescribed by law or regulation.
- alert users that FS are prepared as per special purpose framework.
- Facts known to auditor after date of audit report & a new / amended auditor's report (subsequent events) is issued
- E.g. of EOM – doubts on GC, material changes in accounting policies, early application of AS, uncertainty wrt pending litigations etc.

## **Circumstances where OMP is Necessary:-**

- ❖ Relevant to Users' understanding of Audit
- ❖ Relevant to Users' understanding of Auditor's Responsibilities or Auditor's Report
- ❖ Reporting on more than one set of FS
- ❖ Restriction on distribution or use of auditor's report
- ❖ Applicability of IND-AS
- ❖ Non audit of certain branches

# Relationship between EOP & KAM in Audit Report :

- If SA 701 applies, use of EOM - no substitute for describing individual KAM
- If a matter determined as KAM is also in auditor's judgment, fundamental to users' understanding of FS, then - In communicating KAM, auditor may highlight or draw further attention to its relative importance.
- Matter not determined as KAM but is in auditor's judgment, fundamental to users' understanding of FS (e.g., a subsequent event).- Auditor shall include it as EOM if considered necessary.

# KAM - EOM

- KAM has to be given importance over EOM
- If a matter is stated as KAM it not be stated as EOM
- If a matter may not be KAM it could still be EOM
- Basis of opinion is stated first – then KAM – Then EOM – then OM

# **SA 710 (Revised): Comparative Information– Corresponding Figures & Comparative FS**

- **Objective:**
- Obtain sufficient appropriate audit evidence whether comparative information included in FS is presented, in all material respects, in accordance with requirements for comparative information in AFRF;
- Report in accordance with auditor’s reporting responsibilities

# Requirements:

Auditor's report on the earlier year includes

Qualified opinion or a disclaimer of opinion,  
or an adverse opinion

Matter which gave rise to the modification is  
unresolved

Auditor shall modify the opinion on current  
period's financial statements

# Requirements:

In subsequent year, if auditor obtains evidence that there was MM in prior period FS on which unmodified opinion was issued

Auditor shall verify whether misstatement has been dealt with as required under applicable FRF

If the misstatement is not dealt, then the auditor shall express

A qualified opinion or an adverse opinion in the auditor's report on current period FS.

# Requirements:

- When prior period FS are not audited, incoming auditor should state the fact in auditor's report in an OM paragraph
- When comparative FS are presented, the auditor's opinion shall refer to each period for which FS are presented & on which an audit opinion is expressed.

Any Questions?

Thank You