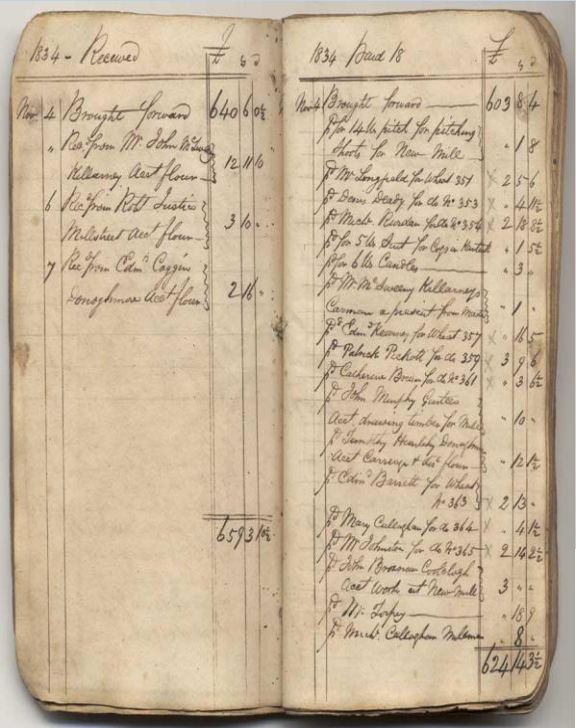




Revised format of Audit Reports SA 700, 705 & 706



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M P Chitale & Co.
March 30, 2013





Disclaimers

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Standards pertaining to Audit Reports

3

SA 700→
Forming an
opinion and
Reporting on
Financial
Statements

SA 706→ Emphasis
of Matter Paragraphs
and other matter
paragraphs in the
Independent
Auditors Report.

SA 705→
Modifications to
the opinion in the
Independent
Auditors report



SA 800→ Audits of
financial statements
prepared in
accordance with
special purpose
frameworks



Applicability

4

- ❑ Initially became effective for all audits relating to accounting periods on or after April 1, 2011.
- ❑ Applicability of SA 700, 705 & 706 deferred to accounting periods on or after April 1, 2012 vide institute announcement dated April 17, 2012.
- ❑ SA 800 continues to be effective from April 1, 2011.



SA 700

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Objective

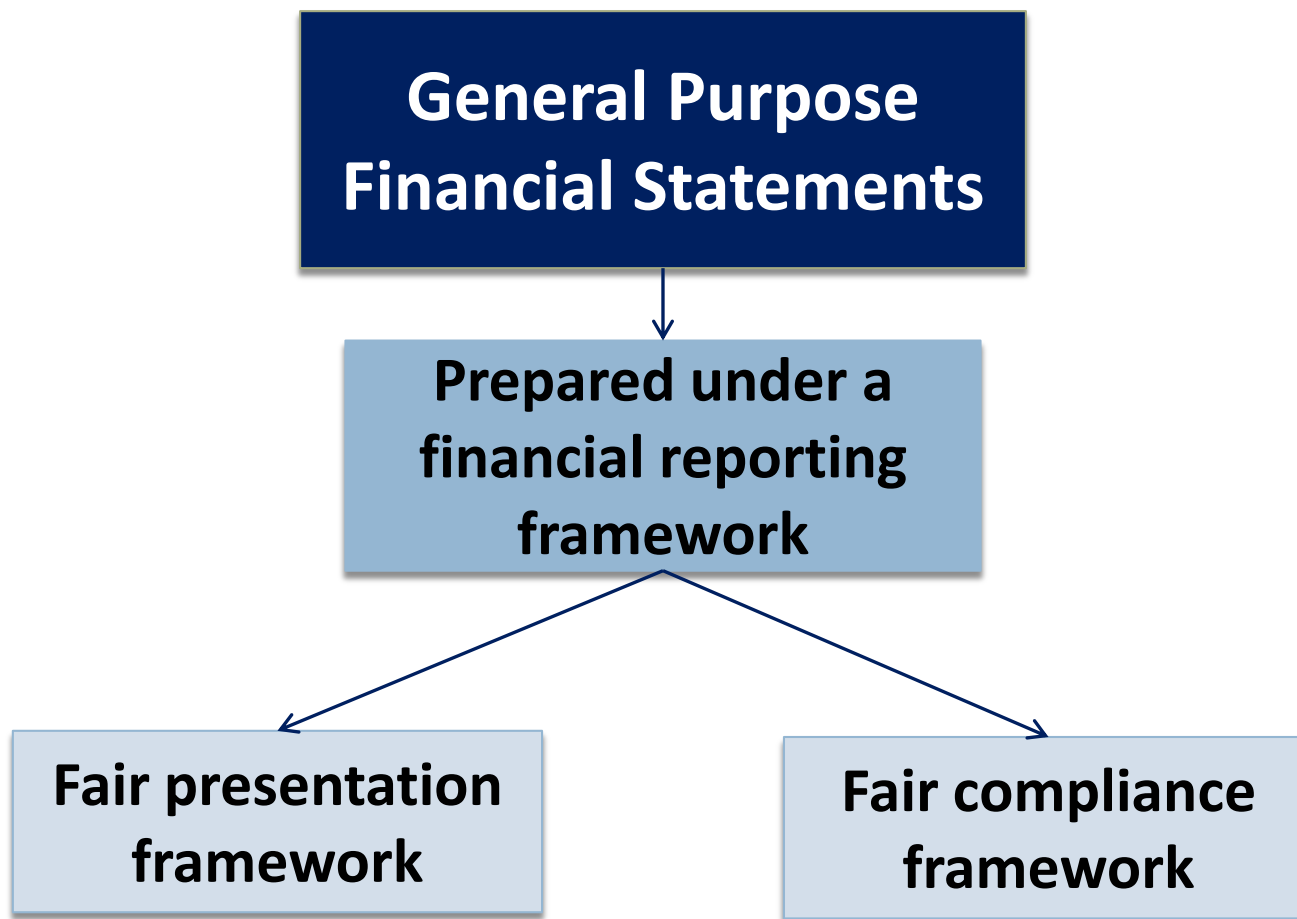
- Form an opinion on financials
- Express an opinion clearly through a written report
- Describe the basis for opinion.





SA 700 ...

6





SA 700.. Forming an opinion

7

- ❑ Opinion on whether financials are prepared, in all material respects, with the applicable financial reporting framework.
- ❑ Unmodified opinion to be expressed when the auditor has concluded that financials are as per framework.
 - ❑ SA 700 to be used only in case of unmodified opinions.
 - ❑ SA 705 to be used if the opinion is modified.
 - ❑ SA 706 to be used if there is an emphasis of matter.





Financial Reporting Framework

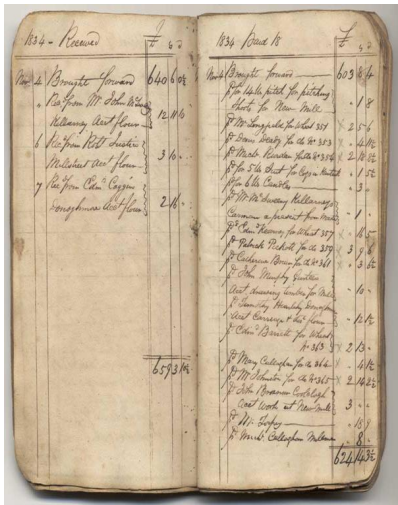
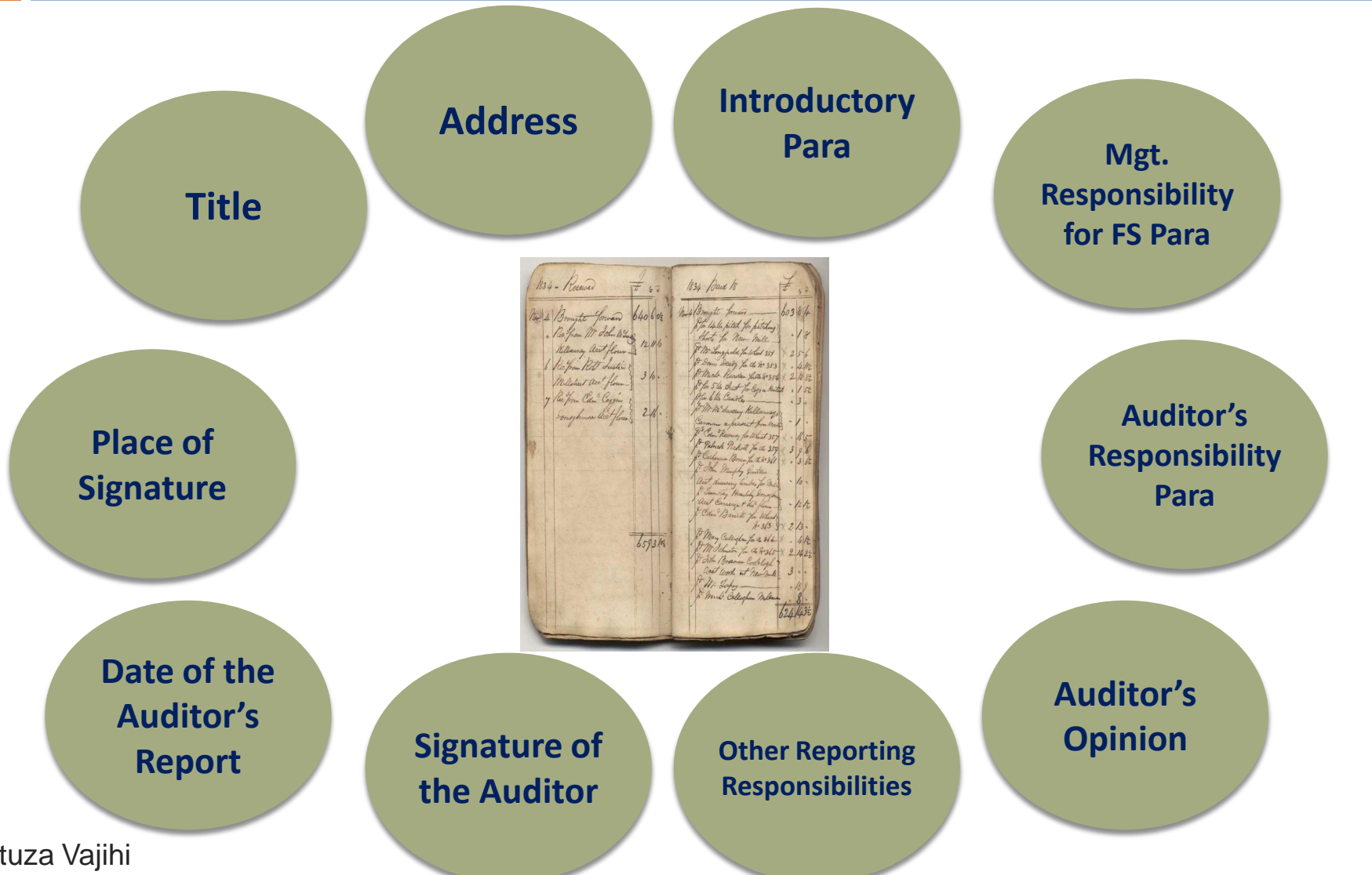
8

- ❑ A FRF designed to meet common financial info needs of a wide range of users

Fair Presentation Framework	Compliance Framework
<ul style="list-style-type: none">▪ Refers to FRF that requires compliance with requirements of the framework.▪ Acknowledges explicitly/ implicitly that the following may be necessary for fair presentation of FS:<ul style="list-style-type: none">• Mgt may need to provide disclosures beyond those specifically required by FRF.• Mgt to depart (in extremely rare situations) from a requirement of framework.	<p>Refers to FRF that requires compliance with requirements of the framework but does not contain the acknowledgement as in Fair Presentation Framework.</p>



SA 700..Form of audit report





SA 700..Form of audit report ...

10

- ❑ Report shall be in writing
 - ❑ Hard copy format and those using an electronic medium
- ❑ Title
 - ❑ Needs to state that is the report of an independent auditor.
- ❑ Addressee
 - ❑ As per terms of engagement → Shareholders, Board of Directors, President of India, specific regulators



SA 700..Form of audit report ...

11

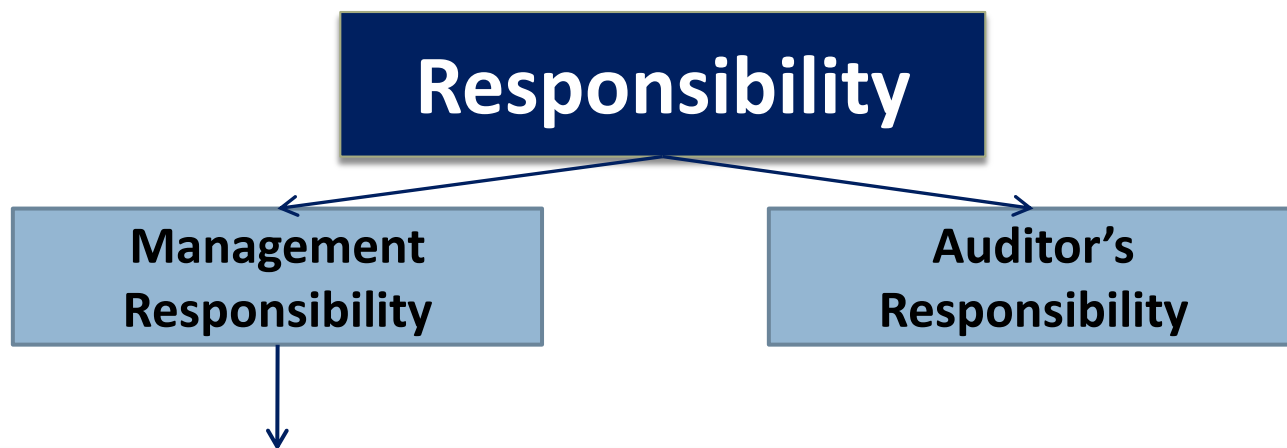
□ Introductory Para

- Identify the entity
- State that financials have been audited
- Identify title of each statement i.e. P/L, Balance sheet, Cash flow, other statements such as Revenue account etc.
- Refer to accounting policies, notes & other explanatory information.
- Specify date or period covered by the financials.



SA 700..Form of audit report ...

12



- Instead of management, any other appropriate term permitted such as Board of Directors etc.
- Report should state that management is responsible for preparing financial statements as per financial reporting framework.
- Design, implementation & maintenance of control relevant to a fair presentation of the financial position.
- Law or regulation may prescribe managements responsibilities → PFRDA,IRDA, RBI etc.



SA 700..Form of audit report ...

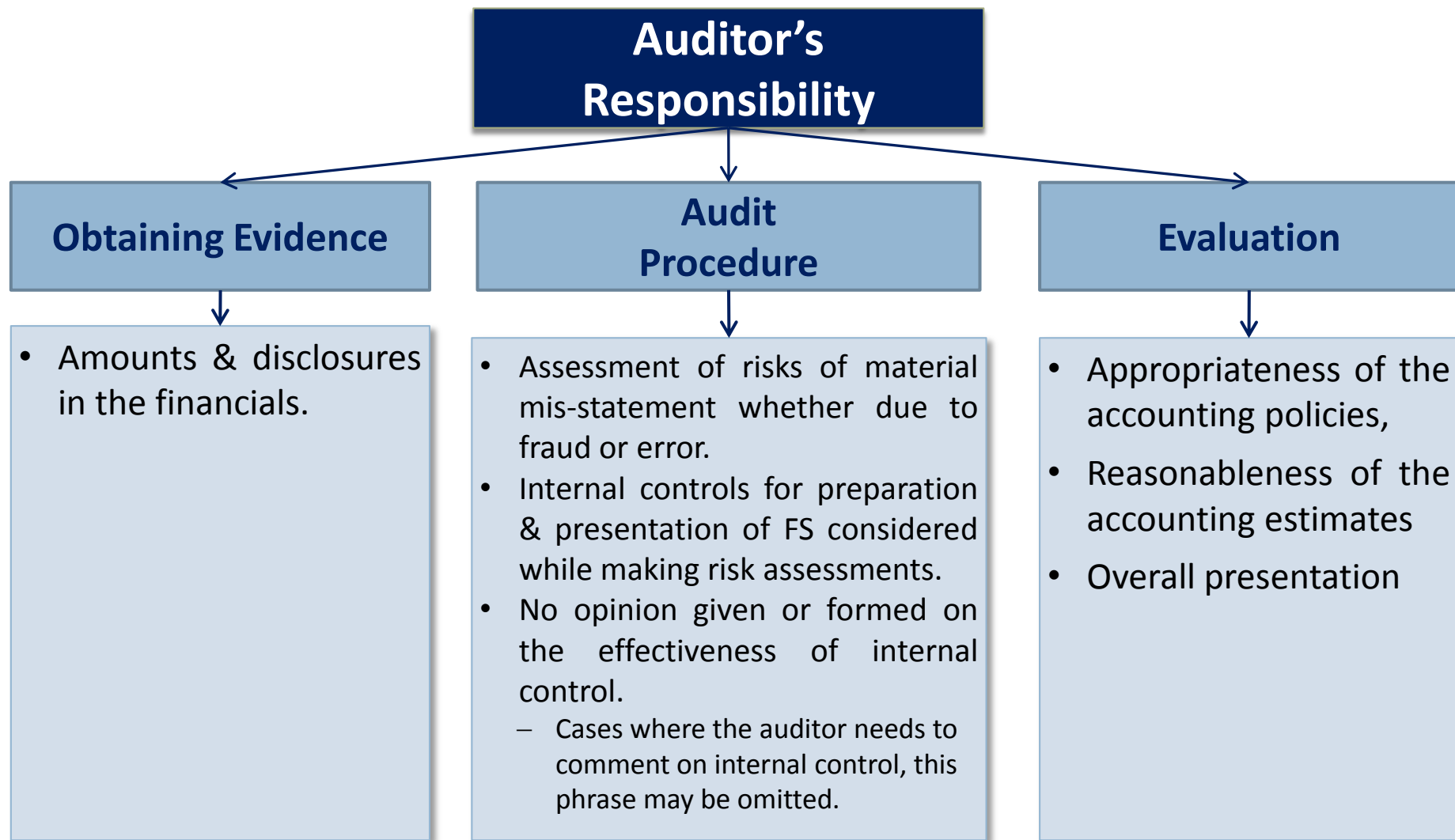
13

- ❑ Auditors responsibility
 - ❑ Required to differentiate work by the management and the auditor.
 - ❑ Needs to mention that responsibility is to express an opinion on financials.
 - ❑ Audit conducted as per SA.
 - ❑ Compliance with ethical requirements



SA 700..Form of audit report ...

14





SA 700..Form of audit report ...

15

- ❑ Auditors responsibility
 - ❑ Entity preparation and *fair* presentation of financial statements.
 - ❑ Entity's preparation that gives a true and fair view.
- ❑ Whether sufficient audit evidence has been obtained and if it is appropriate to form an opinion.



SA 700..Audit Opinion

16

- ❑ Auditors Opinion
 - ❑ To state that financial statements either *present fairly or give a true & fair view* in all material respects in accordance with the financial reporting framework.
 - ❑ When to use 'present fairly' or 'true & fair' is based on the law or regulation governing the audit.
- ❑ Necessary to identify the financial reporting framework so that users are aware of the context in which the report is issued.
- ❑ Framework :
 - ❑ Reporting standards i.e. IFRS/IGAAP
 - ❑ Legal/Regulatory requirements i.e. Companies Act, IRDA, RBI.



SA 700..Audit Opinion ...

17

- ❑ Wordings prescribed by law or regulation in the audit report to be evaluated by the auditor.
 - ❑ If specific laws or regulations prescribe specific wordings or layouts in the audit reports, it is deemed compliance with SA if :
 - ❑ It includes at a minimum, all the items detailed earlier
 - ❑ The law or regulation is not in conflict with the Standards on Auditing.
 - ❑ If wordings differ significantly & if the users misunderstand the assurance given, then additional explanation may be given.
 - ❑ If additional explanations do not serve the purpose, the assignment should not be accepted.



SA 700..Audit Opinion ...

18

- ❑ If FS prepared under more than one framework, each framework to be considered separately when forming an opinion.
 - ❑ E.g. IFRS/IGAAP. Companies Act/SEBI.
 - ❑ Separate opinions to be expressed on each framework.
 - ❑ Unmodified opinion can be expressed in a single sentence or separate sentences/paras.
 - ❑ If opinion is modified on one framework and unmodified on the other, then report on the modified opinion to be as per SA 705



SA 700..Other Reporting Responsibilities ...

19

- ❑ To be reported separately in a separate section titled “*Report on Other Legal & Regulatory requirements*”
 - ❑ Section 227, 274(1)(g) of The Companies Act,
 - ❑ CARO/Physical verification certificates required by IRDA.
 - ❑ May contain similar sub-headings as the main part of the report.
- ❑ Signature:
 - ❑ Signed in the personal name and the name of the firm.
 - ❑ Membership of the auditor & the firm.
- ❑ Date of the report has to be :
 - ❑ After obtaining sufficient appropriate audit evidence
 - ❑ After all statements comprising of financial statements have been prepared.
 - ❑ Those authorized to approve the statements have stated that they have assumed responsibility for the statements.



SA 700..

20

- ❑ Place of Signature has to be place where the report is signed.
- ❑ Supplementary information:
 - ❑ Whether audit of such information is required by applicable reporting frame work or not required?
 - ❑ Whether such information is distinct from financial statements ?
 - ❑ The law or regulation may not want it audited, but management may decide to ask the auditor to include supplementary information to be audited.
 - ❑ If supplementary information is not to be audited, and is not differentiated from the financials, auditor can :
 - ❑ Ask the management to change the manner of presenting such supplementary information
 - ❑ Explain in the audit report that such supplementary information has not been audited.





SA 705 → Modifications to the opinion in the Independent Auditors report

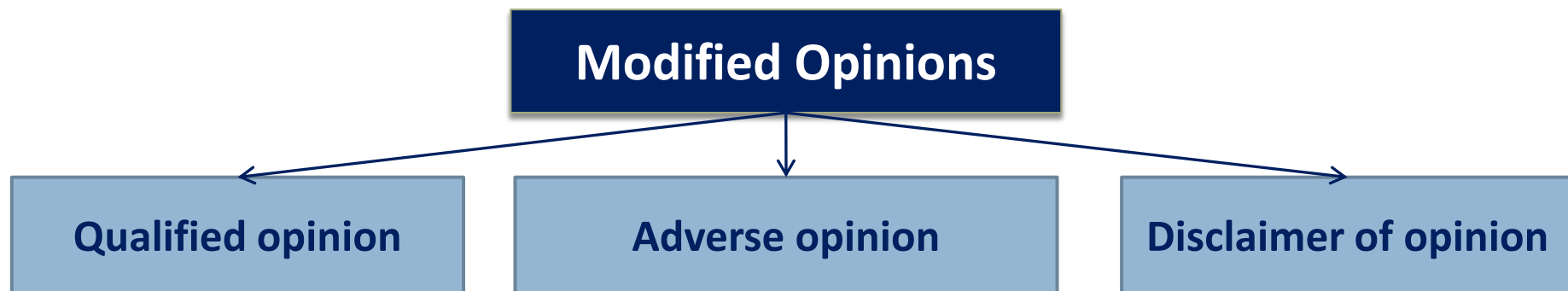
21





SA 705.. Modified Report

22



Depends on:

- Whether financials are materially mis-stated
- Inability to obtain sufficient appropriate audit evidence
- Judgement about pervasiveness of effects on the financial statements



SA 705..

23

Matter leading to modification	Material but not pervasive	Material and pervasive
FS materially mis-stated	Qualified opinion	Adverse opinion .
Inability to obtain evidence	Qualified opinion	Disclaimer of opinion

- Situations where there are multiple uncertainties, but the auditor in spite of obtaining sufficient evidence is not able to form an opinion due to interaction of these uncertainties and their possible effect on FS.



SA 705..

24

- ❑ Pervasive → Effect or possible effects of misstatements on the FS that are undetected, due to an inability to obtain audit evidence. These effects are :
 - ❑ Not confined to specific accounts, elements, or items.
 - ❑ Represent or could represent a substantial portion of the FS, if so confined.
 - ❑ Fundamental to the users understanding of the FS.



SA 705..

25

- ❑ Mis-statement is a difference between the FS & the reporting framework:
 - ❑ Amount
 - ❑ Classification
 - ❑ Presentation
 - ❑ Disclosure
- ❑ May arise in :
 - ❑ Appropriateness/application of the accounting policies.
 - ❑ Appropriateness/adequacy of the disclosures in the FS.



SA 705..

26

- ❑ Appropriateness of the accounting policies.
 - ❑ Mis-statements may arise if the accounting policies selected are not as per framework.
 - ❑ Financials do not present transactions in a manner that achieves fair presentation.

- ❑ Application of accounting policies.
 - ❑ Accounting policies selected are not applied as per the framework.
 - ❑ Inconsistent application of policies between periods.
 - ❑ Inconsistent application to similar events or transactions.



SA 705..

27

- ❑ Appropriateness/adequacy of the disclosures in the FS.
 - ❑ Do not contain all disclosures required by framework
 - ❑ Do not contain disclosures necessary for a fair presentation
 - ❑ Not presented as per the framework.



SA 705..Modified Report ..

28

Inability to obtain sufficient appropriate evidence

Circumstances beyond entities control

- Accounting records destroyed.
- Accounting records seized by authorities.

Circumstances relating to nature/timing of auditors work

- Timing of appointment is such that certain basic audit processes cannot be followed.
- Financial information of an associate is not available.

Limitations imposed by management

- Managements prevents auditor from inventory counting/obtaining external confirmations.



SA 705..Modified Report ..

29

Inability to obtain evidence due to management imposed limitation.

Request management to remove limitation

If management refuses, communicate to those charged with governance.

Possible effects of undetected mis statements

Material but not pervasive, then qualify

Material but pervasive

Resign if permitted by law or regulation

If not so permitted, then disclaim the opinion

Communicate matters regarding misstatements to those charged with governance





SA 705..

30

- ❑ Modified audit report to contain all the elements of SA 700.
- ❑ Additionally include a para that describes the matter causing modification.
- ❑ If material mis-statement relates to amounts in FS, description and quantification to be given.
 - ❑ If not practicable to quantify, mention that it is not practicable to quantify.
- ❑ If material mis-statements relates to non disclosure of information
 - ❑ Describe the nature of the ommitted information
 - ❑ Include the omitted disclosures in the AR, unless prohibited by law or not practicable to do so.
- ❑ If modification pertains to inability to obtain sufficient audit evidence, the report should mention the reasons for that inability.



SA 705..

31

- ❑ Opinion para should be written as :
 - ❑ Qualified opinion
 - ❑ Adverse opinion
 - ❑ Disclaimer of opinion.
- ❑ If opinion is qualified, auditor needs to state 'Except for the matters described in the Basis of Opinion para', The financial statements present fairly as per FRF.
- ❑ If opinion is disclaimed, auditor needs to state :
 - ❑ Because of the significance of matters described in the opinion para,
 - ❑ Auditor has not been able to obtain sufficient appropriate evidence for forming an opinion
 - ❑ The auditor does not express an opinion.



SA 705..

32

- ❑ If opinion is adverse, auditor needs to state that
 - ❑ FS do not present fairly
 - ❑ FS do not give a true & fair view
 - ❑ Not been prepared in all material respects with the applicable FRF.
- ❑ Introductory para and auditors responsibility para to be amended.
- ❑ Section 227 requires qualification to be in thick type or italics only if the qualification is adverse to the functioning of the company.





SA 706..Emphasis of Matter & Other matters

33



Murtuza Vajhi



SA 706..Emphasis of Matter & Other matters

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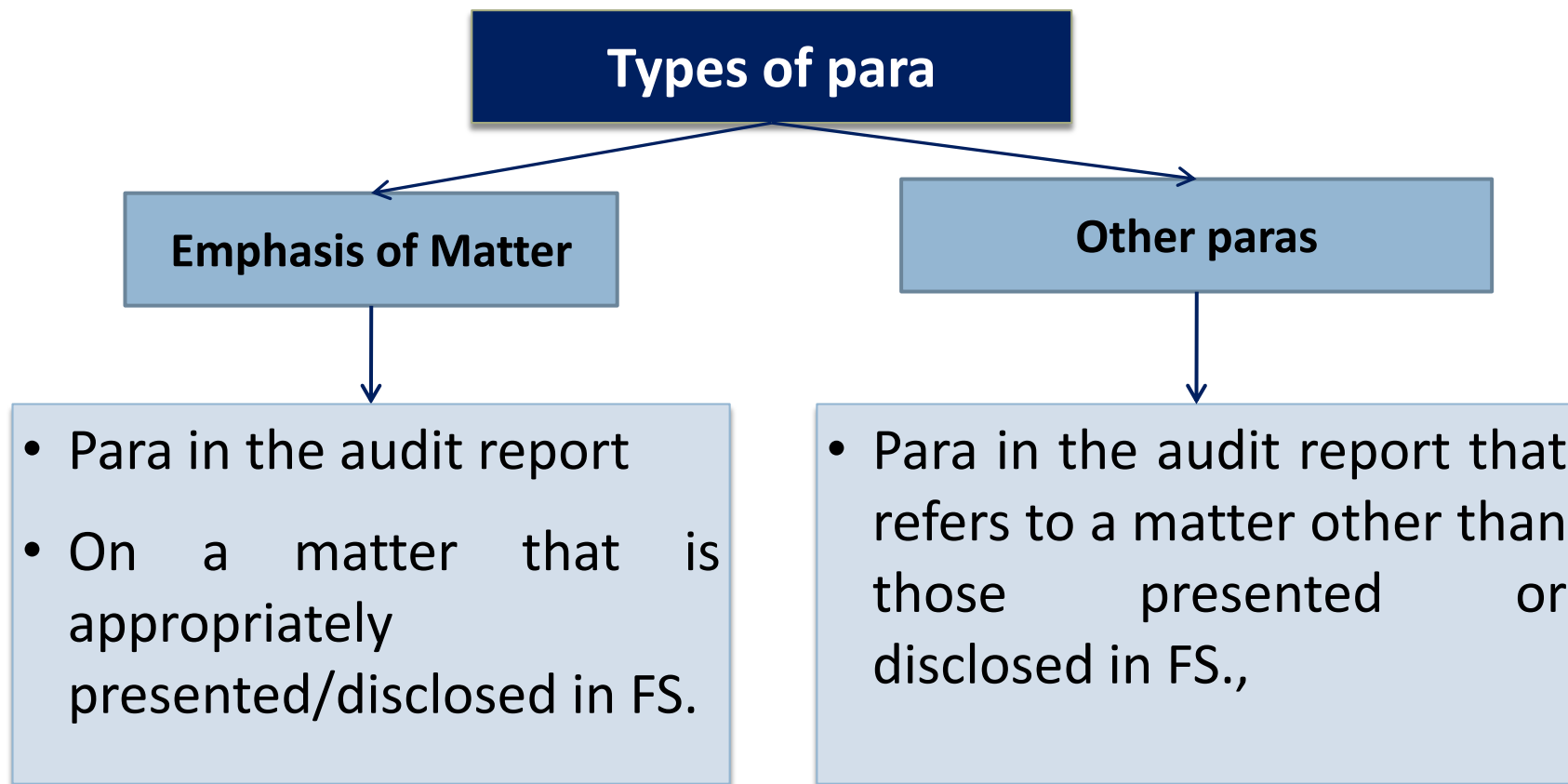
❑ Objective

- ❑ Once an opinion is formed on FS,
- ❑ Draw users attention
- ❑ When auditor judges that it is necessary to do so
- ❑ By way of clear communication
- ❑ On a matter that is appropriately presented or disclosed in FS, but it is of such importance that it is fundamental to the users understanding of the FS.



SA 706..Form of audit report ..

35





SA 706..Emphasis of Matter

36

- ❑ EOM to be given :
 - ❑ If auditor considers necessary to draw users attention
 - ❑ To a matter that is presented or disclosed in FS
 - ❑ Matter is Fundamental to the users understanding of FS
 - ❑ Auditor has obtained sufficient and appropriate evidence that FS is not materially mis stated.
- ❑ EOM
 - ❑ Should not affect the auditors opinion
 - ❑ Should not be a substitute for qualified or adverse opinion



SA 706..Emphasis of Matter ...

37

- ❑ Include a specific para on EOM
- ❑ Use the heading of Emphasis of Matter
- ❑ Draw a clear reference to matter being emphasised
- ❑ Draw a clear reference to disclosures that describe the matter being emphasised.
- ❑ Indicate that auditors opinion is not modified.





SA 706..Other Matters

38

- ❑ May be used to explain why auditor is unable to resign even though the possible effect of inability to obtain evidence is due to limitations is pervasive.
 - ❑ Needs to disclaim the opinion as per SA 705.
- ❑ Law/Regulation may require the auditor to elaborate on matters that provide a further explanation of auditors responsibilities and/or audit report.
 - ❑ Not to be substituted for the section of “other legal & regulatory requirements as per SA 700.





SA 706..Other Matters ...

39

- ❑ Restriction on distribution or use.
 - ❑ FS may be prepared under General purpose framework but required by users for a specific purpose .
 - ❑ Other matter para may be used.
- ❑ Para to be placed depending on nature of information.
 - ❑ If information pertains to audit, then may be included after opinion para or EOM para
 - ❑ If information pertains to other reporting requirements, then may be included in the section of other legal & regulatory requirements.



Thank you

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