



COMPLEXITY

SIMPLIFIED

# CA INTER AUDIT

May'24 Onwards

# TEXT NOTES

## Chapter- 8

# Audit Report



PROF. VISHAL



# Preface

**Before diving into the study material, it's crucial to familiarize yourself with the following guidelines to optimize your learning experience.**

Welcome to your go-to study material for navigating the world of Audit.

Let's start by acknowledging that this material is a direct **replica of** the Institute of Chartered Accountants of India **(ICAI) Study Material**. The goal here is to present the content in a way that's easy to understand ( due to better presentation ) and helps you learn effectively.

In crafting this resource, I have meticulously **segregated and highlighted key concepts**, providing you with a roadmap to **navigate the study material** with greater ease.

Recognizing the preferences of many students who seek **reliability in faculty-generated soft copies** of ICAI Study Material, this compilation aims to **bridge the gap** between the official content and a simplified, user-friendly format.

The main aim is **to be a study buddy** that not only **matches the seriousness** of the original material but also suits different learning styles. By separating and **highlighting important words**, I want to make sure you get a good grip on the subject without feeling overwhelmed.

Furthermore, I understand the **importance of a supportive community** during your academic journey. To address your queries, provide valuable insights, and foster a collaborative learning environment, I invite you to **join our dedicated Telegram Channel and Group** by **clicking the link**. Here, you can freely engage in discussions, seek clarifications on any topic, and request additional resources, including videos on challenging chapters.

Your success is our priority, and we are committed to making your study process as seamless as possible. If you **run into any issues, have suggestions or want to show appreciation** for this effort, **connect** with us on our **Telegram Group and Channel**.

Your feedback keeps us going and helps us improve your learning experience.

I sincerely hope that this compilation simplifies the intricacies of the Audit subject and contributes to your academic success.

*Best Regards*  
*Prof. Vishal*

## Further Guidelines

**1. Conceptual Clarity :** Grasping the underlying concepts can sometimes be challenging, affecting your ability to remember the material. Should you encounter difficulties, our YouTube channel offers videos designed to simplify and expedite your learning process.

**2. One Keyword, One Topic :** It may sound unconventional, but our unique methodology enhances your learning by associating a single keyword with an entire topic. This approach fosters a kind of photographic memory, enabling you to recall and review the subject matter without constantly referring to your notes.

To explore our "One Keyword, One Topic" videos, **click here**.

**3. Retention and Reproduction :** While understanding a concept is crucial, the ability to retain and subsequently reproduce that knowledge in the CA exams is what truly counts.

Be warned—poor retention could jeopardize your performance, leaving you adrift in the turbulent waters of ICAI examinations.

You can instantly reach out via WhatsApp by clicking this icon. 



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**AUDIT ALCHEMY**  
BY PROF. VISHAL

**AUDIT MADE EASY**

JUST 1 KEYWORD?

1 KEYWORD = 1 TOPIC LEARNT

WANNA KNOW HOW?

WATCH THE DEMO LECTURE

FASTRACK COURSE  
**EKALAVYA**

**Free**

\*MINIMAL ADMINISTRATIVE CHARGES APPLY





# 08 CHAPTER

# AUDIT REPORT

## AUDIT OPINION AND REPORT

- Audit process culminates in formation of opinion by an auditor and expression of the same by means of audit report.
- Audit report, therefore, is the **final outcome of an audit exercise**.
- It is the document on which reliance is placed by users of F.St's as it contains auditor's opinion.
- Audit evidence obtained by performing various audit procedures, ultimately, leads to crystallization of opinion by contained in audit report.

## CONSISTENCY AND COMPARABILITY

- Understanding enormous significance of audit report, Sameer was unequivocal in his mind regarding some kind of consistency and comparability in reporting.
- It logically led him to next question - What are basic elements of an audit report? How does it look like? Is it necessary for an auditor to prepare audit report using these elements?

## SPECIFIC SITUATIONS

- A counter question struck his mind in no time. If there is consistency and comparability in reporting, how does an auditor report in specific situations?
  - Shouldn't there be flexibility in reporting in particular situations? How do auditors do that? If an auditor wants to some matters which are necessary to understanding of users of financial statements, how the same can be ensured?
  - And what about those issues which were identified as significant issues during the audit? Can such issues and addressing such issues be reported?
  - What kind of audit procedures were performed on those significant matters? There must be some sort of reporting mechanism for these issues. In absence of such type of flexibility in reporting, audit report can become too
- He was mulling deeply

## MODIFIED OPINION

- What if auditor wants to express a modified opinion? What are different types of it and under what circumstances different types of modified opinion can be given by auditor? Does auditor have to state basis for such an opinion compulsorily? These were probing thoughts crisscrossing his mind.
- He was also considering about reporting requirements if some matters are specifically required to be reported in accordance with law. Particularly, in case of companies, are there some specific matters? How reporting is to be by auditor in respect of such matters?

## PUBLISHED AUDIT REPORTS

- Amidst this maze of thoughts, Shekhar called him to inform that, audit of company his team was doing, is now and audit report has been issued. Wanting to know about outcome, he was asked by Shekhar to go to website of the company and go through audit report himself.





## 1 FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENT (SA 700)

### EFFECTIVE DATE

Audit of Financial Statements for periods beginning on or after 1st April 2011

### SCOPE OF SA [PARA 1]

This SA deals with the Auditor's responsibility to form an opinion on the Financial Statements. It also deals with the form and content of the Auditor's Report issued as a result of an audit of Financial Statements.

### 1.1 OBJECTIVES OF AN AUDITOR

The objectives of the Auditor are to -

- Form an opinion** on the Financial Statements, based on an evaluation of the conclusions drawn from the audit evidence obtained, and
- Express clearly that Opinion, through a **written report** that also describes the Basis for the Opinion.

### Consistency and comparability

The requirements of this SA are aimed at addressing

- ✓ an appropriate balance between the need for consistency and comparability in auditor reporting globally and
- ✓ the need to increase the value of auditor reporting by making the information provided in the auditor's report more relevant to users.

### Benefits

This SA promotes consistency in the auditor's report, but recognizes the need for flexibility to accommodate particular circumstances of individual jurisdictions.

Consistency in the auditor's report, when the audit has been conducted in accordance with SAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards.

It also helps to promote the user's understanding and to identify unusual circumstances when they occur.

### 1.2 To Form Opinion- Auditor to obtain Reasonable Assurance

#### Basic Principle (Para 10)

The Auditor shall **form an Opinion** on whether the Financial Statements are prepared, in all material respects, in accordance with the **Applicable FRF**.

#### RA (Para 11)

In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the F.St.'s as a whole is free from MMSt., whether due to F/E.

#### Basis

That conclusion shall **take into account:**

- The auditor's conclusion, in accordance with SA 330, Whether SAAE has been obtained;



- b) The auditor's conclusion, in accordance with SA 450, Whether uncorrected misstatements are material, individually or in aggregate;
- c) The evaluations required by paragraphs 12-15.

**1.3 Evaluations by the Auditor**

The auditor shall evaluate whether the F.St.'s is **prepared** in all material respects in accordance with the requirement of the applicable FRF.

This evaluation shall **include consideration of the qualitative aspects** of the entity's accounting practices, including indicators of possible bias in management's judgement.

**Qualitative Aspects of the Entity's Accounting Practices (Para A.1 – A..3)****➤ Judgements**

Management makes a number of judgements about the amount and disclosures in the F.St.'s.

**➤ SA 260**

SA 260 (Revised) contains a **discussion of the qualitative aspects** of accounting practices

**➤ Possible Bias**

Indicators of a **lack of neutrality** include the following:

- I. The selective correction of misstatements brought to management's attention during the audit.

**For example**, correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings

- II. Possible management bias in the making of accounting estimates.

**➤ SA 540**

SA 540 addresses possible management bias in making accounting estimates.

Indicators of possible management bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor's evaluation of whether the financial statements as a whole are free from material misstatement.

**1.4 Specific Evaluations by the Auditor****Specific Evaluations**

In Particular, The Auditor shall evaluate whether, in view of the requirements of the Applicable FRF

- a. The F.St's adequately disclose the **significant accounting policies** selected and applied.
- b. The **accounting policies** selected and applied are consistent with the applicable FRF and are appropriate.
- c. The **accounting estimates** made by Management are reasonable
- d. The **information** presented in the F.St's is relevant, reliable, comparable and understandable.
- e. The Financial Statements provide **adequate disclosures** to enable the intended users to understand the effect of material transactions and events on the information conveyed in the F.St.'s and





f. The **terminology** used in the F.St's, including the title of each Financial Statement, is appropriate.

#### **Evaluation wr.t. Fair Presentation Para 14 - 15**

- Further, when the financial statements are prepared in accordance with a FPF/w, the evaluation mentioned above (Point A and B) shall also include an evaluation by the auditor as to whether the financial statements achieve fair presentation which shall include consideration of:
  - I. The overall presentation, structure and content of the financial statements; and
  - II. Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.
- The auditor shall evaluate whether the F.ST.'s adequately refers to or describe the applicable FRF.

### **1.5 Definitions**

For making the understanding better, the following terms have been defined below:

#### **General purpose financial statements -**

Financial Statements prepared in accordance with a General-Purpose Framework.

#### **General purpose framework-**

A Financial Reporting Framework designed to meet the common financial information needs of a wide range of users. The Financial Reporting Framework may be a Fair Presentation Framework or a Compliance Framework.

#### **fair presentation framework**

It is a Financial Reporting Framework that **requires compliance with the requirements of the framework and-**

1. Acknowledges explicitly or implicitly that, to achieve Fair Presentation of the Financial Statements, it may be necessary for Management to provide disclosures beyond those specifically required by the Framework, or
2. Acknowledges explicitly that it may be necessary for Management to depart from a requirement of the Framework to achieve Fair Presentation of the Financial Statements. Such departures are expected to be necessary only in extremely rare circumstances.

#### **Compliance framework**

The term "Compliance Framework" is used to **refer to a FRF that requires compliance** with the requirements of the the Framework (but does not contain the acknowledgements in (1) or (2) given above for FPF.

#### **Unmodified opinion-**

The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared in all material respects, in accordance with the applicable financial reporting framework.

## **2 FORM OF OPINION**

### **UNMODIFIED OPINION**

The Auditor shall express an Unmodified Opinion, when the Auditor **concludes** that the Financial Statements are prepared, in all material respects, in accordance with the **Applicable FRF**.

### **MODIFIED OPINION**

If the Auditor -





- a. **concludes** that, based on the audit evidence obtained, the Financial Statements as a whole **are not free from MMST**, or
- b. is **unable to obtain SAAE** to conclude that the Financial Statements as a whole are free from material mis-statement.

} the Auditor shall modify the opinion in the Auditor's report (in acc. with SA 705)

### 3 AUDITOR'S REPORT

The auditor's report shall be in writing. This SA- 700 requires the use of specific heading, which are intended to assist in making auditor's report more recognizable, where audit is conducted in accordance with the relevant Standards on Auditing.

#### 3.1 Auditor's Report for Audits Conducted In Accordance With SA's:

##### Title:

The Auditor's Report shall have a Title that clearly **indicates** that it is the **report of an Independent Auditor**.

For example, "Independent Auditor's Report," distinguishes the independent auditor's report from reports issued by others.

##### Addressee:

- a. The A.'s.R. shall be addressed as appropriate, based on the circumstances of the engagement.
- b. The **Law, Regulation or the terms** of the engagement may specify to whom the A's.R is to be addressed.
- c. The A's.R. is normally addressed to those for whom the report is prepared, often either to the **Shareholders or to TCWG** of the Entity whose Financial Statements are being audited.
- d. In case of a **company**, the report is addressed to the **shareholders** of the company.

**READ ILLUSTRATION- 1,2** For better understanding.

##### Auditor's Opinion:

The first section of the A's.R. shall include the auditor's opinion, and shall have the heading "Opinion."

The Opinion section of the auditor's report shall also:

- a. **Identify the Entity** whose Financial Statements have been audited,
- b. **State** that the Financial Statements have been audited,
- c. **Identify the Title of each statement** that comprises the Financial Statements,
- d. Refer to the **summary of significant accounting policies** and other explanatory information, and
- e. **Specify the date or period** covered by each Financial Statement comprising the F.St.'s.

##### Unmodified Opinion:

When expressing an unmodified opinion on F.St.'s, the auditor's opinion shall, **unless otherwise required by law or regulation, use one of the following phrases**, which are regarded as being equivalent:

- ✓ In our opinion, the accompanying financial statements present fairly, in all material respects, [...] in accordance with [the applicable financial reporting framework].
- ✓ In our opinion, the accompanying financial statements give a true and fair view of [...] in accordance with [the applicable financial reporting framework].



The phrases “present fairly, in all material respects,” and “give a true and fair view” are regarded as being equivalent.

When the auditor expresses an unmodified opinion, it is **not appropriate to use phrases** such as “with the foregoing Explanation” or “subject to” in relation to the opinion, as **these suggest a conditional opinion or a weakening or of opinion.**

### READ ILLUSTRATION-3

#### **Basis for Opinion:**

The A’sR. shall include a section, directly following the Opinion section, with the heading “Basis for Opinion”, that

- I. States that the **audit was conducted** in accordance with Standards on Auditing;
- II. Refers to the **section** of the auditor's report that describes the auditor's responsibilities under the SAs;
- III. Includes a **statement** that the auditor is independent of the entity in accordance with the relevant **ethical requirement** relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall refer to the COE issued by ICAI.
- IV. States whether the auditor believes that the **audit evidence** the auditor has obtained is SAA to provide a basis for the **auditor's opinion**.

Thus, the Basis for opinion section provides important context about the auditor’s opinion.

### READ ILLUSTRATION-4

#### Going Concern

Where applicable, the auditor shall report in accordance with SA 570 (Revised)

#### ➤ **Fundamental**

Under the going concern basis of accounting, the **financial statements are prepared on the assumption** that the entity going concern and will continue its operations for the foreseeable future. General purpose financial statements **are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.**

#### ➤ **Going Concern Appropriate:**

When the use of the going concern basis of accounting is appropriate,

- ✓ assets and liabilities are recorded on the basis that the entity will be able to
- ✓ realize its assets and discharge its liabilities in the normal course of business.

#### ➤ **SAAE/ Conclusion:**

The auditor shall evaluate whether SAAE has been obtained regarding, and shall conclude on, the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statement.

#### ➤ **Material Uncertainty:**

**Based on the AE** obtained, the auditor shall conclude whether, in the A’s.J., a MU exists related to E/C’s that, or collectively, may CSD on the entity’s ability to continue as a GC.

#### ➤ **Basis of MU Existence:**

A material uncertainty exists when the **magnitude** of its potential impact and **likelihood** of occurrence is such that, In the auditor’s judgement, appropriate disclosure of the nature and implications of the uncertainty is necessary for:



### Key Audit Matters

➤ **For listed entities Para 30**

For audits of **complete sets of GPFS** of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with SA 701.

➤ **Other entities Para 31**

When otherwise required by law or regulation or decides to communicate key audit matters in the auditor's report the auditor shall do so in accordance with SA 701.

Law or regulation may require communication of key audit matters for audits of entities other than listed entities.

### Responsibilities for the Financial Statements (Para 32)

➤ **Management Responsibilities Para 33**

This section of auditor's report shall describe management's **responsibility for:**

a. Preparing financial statements in accordance with applicable financial framework, and such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to error or fraud.

[because of the possible effects of fraud on other aspects of the audit, **materiality does not apply to management's acknowledgement** regarding its responsibility for the **DIM of internal control** (or for establishing and maintaining effective internal control over financial reporting) to prevent and detect fraud.] and

b. Assessing the entity's ability to continue as going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters related to going concern

[The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate.]

➤ **Premise SA 200 Para A.39**

SA 200 explains the **premise**, relating to the **responsibilities of management** and, where appropriate, **TCWG**, on audit in accordance with SAs is conducted.

Management and, where appropriate, those charged with governance accept responsibility for the preparation of the financial statements.

Management also accepts responsibility for such internal control as it determines is necessary to enable the of financial statements that are free from material misstatement, whether due to fraud or error.

The **description** of management's responsibilities in the auditor's report includes **reference to both responsibilities** as helps to explain to users the premise on which an audit is conducted.

➤ **SA 210 Agreement Para A.41**

SA 210 requires the auditor to agree management's responsibilities in an engagement letter or other suitable form of written agreement.

➤ **Oversight of the financial reporting process Para 34**

This section of the auditor's report shall also **identify those responsible for the oversight** of the financial reporting





process, when those responsible for such oversight are different from Management.

In this case, the **heading of this section shall also refer to "TCWG"** or such term that is appropriate in the context of the legal framework applicable to the entity.

### Management's Responsibility for the Standalone Financial Statements

#### ➤ **Responsibility Of BOD**

The Company's Board of Directors is responsible for the **matters stated in section 134(S)** of the Companies Act, ("the Act") with respect to the **preparation** of these standalone financial statements that give a **true and fair view** of the

- ✓ financial position,
- ✓ financial performance, (changes in equity) and
- ✓ cash flows

of the Company in accordance with the accounting principles generally accepted in India, including the accounting specified under section 133 of the Act.

#### ➤ **Additional Responsibilities**

This responsibility also includes

- **maintenance of adequate accounting records** in accordance with the provisions of the **Act** for safeguarding of the Company and for preventing and detecting frauds and other irregularities;
- selection and application of appropriate accounting policies;
- making judgements and estimates that are reasonable and prudent; and
- DIM of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records,

**relevant to the preparation and presentation** of the financial statement that give a true and fair view and are free material misstatement, whether due to fraud or error.

#### ➤ **Oversight**

Those Board of Directors are also responsible for overseeing the Company's financial reporting process.

#### ➤ **Going Concern**

In preparing the financial statements, **management is responsible for assessing** the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, has no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Statements Para 36

The auditor's report shall include a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements."

#### **I. This section of the auditor's report shall state: (Para 37)**

#### ➤ **Objectives**

that the objectives of the auditor are to:





	<ul style="list-style-type: none"> <li>✓ Obtain <b>reasonable assurance</b> about whether the financial statements as a whole are free from material Misstatement, whether due to fraud or error; and</li> <li>✓ Issue <b>an auditor's report</b> that includes the auditor's opinion.</li> </ul>
➤	<p><b>Reasonable Assurance</b></p> <p>that reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists; and</p>
➤	<p><b>Misstatements</b></p> <p>that misstatements can <b>arise from fraud or error, and either:</b></p> <ul style="list-style-type: none"> <li>✓ Describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements;</li> <li>✓ Provide a definition or description of materiality in accordance with the applicable FRF.</li> </ul>
	<b>II. The Auditor's Responsibilities for the Audit of the F. St. 's section of the auditor's report shall further:</b>
➤	<p><b>PJ &amp; PS</b></p> <p>1. State that, as part of an audit in accordance with SAs, the auditor <b>exercises</b> professional judgment and maintains professional scepticism <b>throughout</b> the audit; and</p>
➤	<p><b>Auditor's Responsibilities</b></p> <p>11. Describe an audit by stating that the auditor's responsibilities are</p> <p><b>a. Identify RoMM</b></p> <ul style="list-style-type: none"> <li>✓ To identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain audit evidence that is SAA to provide a basis for the auditor's opinion.</li> <li>✓ <b>The risk of not detecting a MMSt</b> resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of IC.</li> </ul> <p><b>b. Understanding of IC</b></p> <ul style="list-style-type: none"> <li>✓ To obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.</li> </ul> <p><b>c. A/c P &amp; E</b></p> <p>To <b>evaluate the appropriateness</b> of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management</p> <p><b>d. Going Concern</b></p> <p>To conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.</p>





**e. F.st.'s as per FRF**

When the financial statements are prepared in accordance with a fair presentation framework, to evaluate the overall presentation, structure and content of the financial statements, including the disclosure, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

**f. Using Work of another Auditor**

When SA 600, "Using the Work of another Auditor", applies, further describe the auditor's - **responsibilities in a group audit engagement** by stating:

The division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components is audited by the other auditors have been included in the financial information the entity.

**III. The Auditor's Responsibilities for the Audit of the F.St's section of the auditor's report also shall:**

➤ **Communication with TCWG**

State that the auditor communicates with TCWG regarding, among other matters, the planned scope and timing of and significant audit findings, including any significant deficiencies in internal control that the auditor identifies - the audit;

➤ **Key Audit Matters**

▪ For audits of financial statements of listed entities and any other entities for which key audit matters are in accordance with SA 701, state that, from the matters communicated with those charged with governance, the determines those matters that were of most significance in the audit of the financial statements of the current and are therefore the key audit matters.

▪ In accordance with the requirements of SA 701, the auditor describes these matters in the auditor's report unless  
✓ law or regulation precludes public disclosure about the matter or  
✓ when, in extremely rare circumstances, the auditor determines that a matter should not be communicated auditor's report

because the adverse consequences off date of the auditor's report doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Location of the description of the auditor's responsibilities for the audit of the financial statements:**

➤ **Description**

The description of the auditor's responsibilities for the audit of the financial statements required by this SA shall be

- I. Within the body of the auditor's report
- II. Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix; or
- III. By a specific reference within the auditor's report to the location of such a description on a website of an authority, where law, regulation or the AS expressly permit the auditor to do so.

**READ ILLUSTRATION- 6**



### Other Reporting Responsibilities

➤ **Report on Other Legal & Regulatory Requirements**

If the Auditor **addresses other reporting responsibilities** in the Auditor's Report on the Financial Statements that are in addition to the Auditor's Responsibility under the SAs to report on the F.St.'s, these other reporting responsibilities shall be **addressed in a separate section** in the Auditor's Report that shall be **sub-titled** "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section unless these other reporting responsibilities **address the same topics** as those presented under the reporting responsibilities required by the SAs in which case the other reporting responsibilities may be presented in the same section as the related report elements required by the SAs.

➤ **If presented in the same section**

If other reporting responsibilities are presented in the same section as the related report elements required by the SAs, the auditor's report shall **clearly differentiate** the other reporting responsibilities from the reporting that is required by the SAs.

[Example: Reporting requirements under the Companies Act.]

➤ **Report contains a separate section**

If the Auditor's Report contains a separate section on other reporting responsibilities, the headings, statements and explanations (referred to in Para 23-37) shall be under the sub-title "**Report on the Financial Statements.**" The "**Report on Other Legal and Regulatory Requirements**" shall follow the "**Report on the Financial Statements.**"

### Signature of the Auditor

➤ **Signed**

The Auditor's Report shall be signed.

➤ **Personal/Firm**

The report is signed by the Auditor in his personal name. Where the Firm is appointed as the Auditor, the report is signed in the personal name of the Auditor and in the name of the Audit Firm.

➤ **Membership/ Reg No.**

The Partner / Proprietor signing the Audit Report should also mention the Membership Number assigned by the ICAI. They also include the Registration number of the Firm, wherever applicable, as allotted by ICAI, in the Audit Reports by them.

### Place of Signature

➤ **Location**

The Auditor's Report shall name the specific location, which is ordinarily the city where the Audit Report is signed.





## Date of the Auditor's Report

- **Date of Report**

The Auditor's Report shall be dated **no earlier** than the date on which the Auditor has obtained SAAE on which to Base the Auditor's Opinion on the Financial Statements, including evidence that-

  - a. **Preparation:** All the statements that comprise the Financial Statements, including the related notes, have been prepared, and
  - b. **Management Approval:** Those with the recognised authority have asserted that they have taken responsibility for those Financial Statements.
  
- **Relevance**
  - The date of the auditor's report **informs the user** of the auditor's report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date.
  - The auditor's responsibility for events and transactions **after the date** of the auditor's report is addressed in SA 560.
  
- **UDIN**
  - It was **noticed that financial documents / certificates attested by third person misrepresenting themselves as CA Members were misleading the Authorities and Stakeholders.**
  - ICAI also received number of complaints of signatures of CAs being forged by non CAs
  - **To curb the malpractices, the Professional Development Committee** of ICAI implemented in phased manner an innovative concept of UDIN i.e. Unique Document Identification Number
  - All Certificates were made mandatory with effect from 1st February, 2019 as per the Council decision taken at its 379th Meeting held on 17th - 18th December, 2018.
  - Chartered Accountants having full-time Certificate of Practice can register on UDIN Portal and generate UDIN by registering the certificates attested/certified by them.
  - Accordingly, an auditor is required to mention the UDIN with respect to each audit report being signed by him, along with his membership number while signing an audit report.

### READ ILLUSTRATION-7

REFER TYOU 1 & 2 FOR BETTER UNDERSTANDING.

(HUME PTE HAI AAP NAHI PADHOGE BUT TRUST ME THAT'S IMPORTANT)

## 4 AUDITOR'S REPORT PRESCRIBED BY LAW OR REGULATION

- SA 200 explains that the auditor may be required to comply with legal or regulatory requirements in addition to SAs.
- When the **differences** between the **legal** or regulatory requirements and **SAs** relate only to the layout and wording of the auditor's report, the requirements stated below in points (a)-(m) set out the minimum elements to be included in the auditor's report to enable a reference to the Standards on Auditing.
- **In those circumstances, the requirements stated in Point E** above that are not included in points (a)-(m) need not be applied.





**For example**, the required ordering of the Opinion and the Basis of Opinion sections need not be applied. Where specific requirements in a particular law or regulation do not conflict with SAs, the layout and wording required by this SA assist users of the auditor's report in more readily recognizing the auditor's report as a report of an audit conducted in accordance with SAs

If the Auditor is **required by any Law or Regulation to use a specific layout or wording** of the Auditor's Report, the Auditor's Report shall refer to SA only if the Auditor's Report includes, at a minimum, each of the following elements-

**FORMAT OF AUDIT REPORT**

- a. **A title.**
- b. **An addressee**, as required by the circumstances of the engagement.
- c. **An Opinion section** containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements.
- d. **An identification of the entity's financial statements** that have been audited.
- e. A statement that the auditor is **independent of the entity** in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall refer to the **Code of Ethics issued by ICAI**.
- f. Where applicable, a section that addresses, and is not inconsistent with, the reporting requirements of **SA 570(Revised)**
- g. Where applicable, a **Basis for Qualified (or Adverse) Opinion** section that addresses, and is not inconsistent with the reporting requirements in SA 570 (Revised).
- h. Where applicable, a section that includes the **information required by SA 701, or prescribed by law or regulation** and that addresses, and is not inconsistent with, the reporting requirements in that SA.
- i. **A description of managements**. responsibilities for the preparation of the financial statements and an identification of those responsible for the oversight of the financial reporting process that addresses, and is not inconsistent with the requirements as contained in this SA 700.
- j. **A reference to Standards on Auditing** and the law or regulation, description of the auditor's responsibilities for an audit of the financial statements that addresses, and is not inconsistent with, the requirements as contained in this SA 700.
- k. The auditor's **signature**.
- l. The **Place** of signature
- m. The **date** of the auditor's report.

**READ ILLUSTRATION- 8** For better understanding.

**5 MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT (SA 705)****EFFECTIVE DATE**

Audit of Financial Statements for periods beginning on or after 1st April 2018

**MODIFIED OPINION**

A Qualified Opinion, an Adverse Opinion or a Disclaimer of Opinion.





## SCOPE OF SA

- This SA deals with the Auditor's responsibility to issue an appropriate Report in circumstances when, in forming an opinion in accordance with SA-700, the Auditor concludes that a Modification to the Auditor's opinion on the Financial Statements is necessary.
- This SA also deals with **how the form and content** of the auditor's report is affected when the auditor expresses a modified opinion.

### 5.1 Objectives of an auditor- to express clearly an appropriate modified opinion

The objective of the Auditor is to express clearly an appropriately Modified Opinion on the Financial statement that is necessary when -

The Auditor **concludes**, based on the audit evidence obtained, that the Financial Statements as a whole are not free from material mis-statement, or

The Auditor is **unable to obtain SAAE** to conclude that the Financial Statements as a whole are free from material Mis-statement.

### 5.2 Circumstances when a Modification to the Auditor's Opinion is Required

The Auditor shall modify the opinion in the Auditor's Report when -

#### Positive Conclusion

The Auditor **concludes**, based on the audit evidence obtained, that the Financial Statements as a whole are not free from material mis-statement,

#### Limitation

The Auditor is **unable to obtain SAAE** to conclude that the Financial Statements as a whole are free from material Mis-statement.

### 5.3 Types of Modified Opinions:

There are three types of modified opinions, namely-

1. A qualified opinion
2. An adverse opinion
3. A disclaimer of opinion

#### Qualified Opinion

The auditor shall express a qualified opinion when:

- a. The Auditor, having obtained sufficient appropriate audit evidence, **concludes** that mis-statements, individually or in the aggregate, are **material, but not pervasive**, to the Financial Statements, or
- b. The Auditor is **unable to obtain SAAE** on which to base the opinion, but the Auditor concludes that the possible effects on the Financial Statements of **undetected mis-statements**, if any, could be **material but not pervasive**.

READ ILLUSTRATION- 9

**Adverse Opinion**

The Auditor shall express an Adverse Opinion when the Auditor, **having obtained SAAE**, concludes that mis-statements, individually or in the aggregate, **are both material and pervasive** to the financial statements.

**Definition of Pervasive**

- a. A term used, in the context of mis-statements, to describe the effects on the Financial Statements of mis-statements or the possible effects on the financial statements of mis-statements, if any, that are undetected due to an inability to obtain SAAE
- b. Pervasive Effects on the Financial Statements are those that, in the Auditor's judgment-
  - Are not confined to specific elements, accounts or items of the Financial Statements,
  - If so confined, represent or could represent a substantial proportion of the Financial Statements, or
  - In relation to disclosures, are fundamental to Users' understanding of the F.St.'s

**READ ILLUSTRATION- 10****Disclaimer of Opinion**

- a. The Auditor shall disclaim an Opinion when the Auditor is **unable to obtain SAAE** on which to base the opinion, and the Auditor concludes that the possible effects on the Financial Statements of undetected mis-statements, if any, **could be both material and pervasive**.
- b. The Auditor shall disclaim an Opinion when, in **extremely rare circumstances** involving **multiple uncertainties**, the Auditor concludes that, notwithstanding having obtained SAAE regarding each of the individual uncertainties, it is not possible to form an Opinion on the Financial Statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

**READ ILLUSTRATION -11****5.4 Which type of opinion is appropriate?**

The decision regarding which type of modified opinion is appropriate depends upon:

- a. The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain SAAE, may be materially misstated; and
- b. The auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial statements.

**5.5 Consequence of an Inability to Obtain SAAE Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement****If, after accepting becomes aware**

If, after accepting the Engagement, the Auditor becomes aware that Management has imposed a limitation on the scope of the audit that the Auditor considers likely to result in the need to express a qualified opinion or to Disclaim an Opinion on the Financial Statements, the Auditor **shall request the management to remove The limitation**.

**Management refuses to remove limitation**

If Management refuses to remove the limitation, the Auditor shall **communicate** the matter to **TCWG** and determine whether it is possible to **perform alternative procedures** to obtain SAAE.





**NO SAAE**

If the Auditor is unable to obtain sufficient appropriate audit evidence, and if he concludes that the possible effects on the Financial Statements of undetected mis-statements, if any, could be material but not pervasive, the Auditor shall **qualify the opinion.**

**If Qualification is inadequate**

If the Auditor is unable to obtain SAAE, and if he concludes that the possible effects on the financial statements of undetected mis-statements, if any, could be both material and pervasive so that a qualification of the Opinion would be inadequate to communicate the gravity of the situation, the Auditor shall-

- a. **Withdraw from the audit**, where practicable and not prohibited by Law or Regulation. The Auditor may be required to communicate the matters relating to resignation to TCWG; or
- b. If **withdrawal from the audit** before issuing the Auditor's Report is not practicable or possible (e.g. where audit has been substantially complete), disclaim an opinion on the Financial Statements and explain the scope limitation in the "Basis for Disclaimer of Opinion" Paragraph prior to withdrawal.

**Communicate to TCWG**

If the auditor withdraws as contemplated by paragraph 13(b)(i), before withdrawing, the auditor shall communicate to TCWG any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.

Refer TYOU- 3

READ ILLUSTRATION- 12

**5.6 Form and content of opinion paragraph, in case of Modification**

**Heading**

When the auditor modifies the audit opinion, the auditor shall use the heading "Qualified Opinion," "Adverse Opinion" or "Disclaimer of Opinion," as appropriate, for the Opinion section.

**Qualified Opinion**

- When the auditor expresses a qualified opinion **due to a material misstatement** in the financial statements, the auditor shall **state that**, in the auditor's opinion, **except for the effects of the matter(s) described in the Basis for Qualified Opinion** section:
  - ✓ When reporting in accordance with a **FPF/w**, the accompanying F.ST.'s **present fairly**, in all material respects (Or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework]; or
  - ✓ When reporting in accordance with a **CF/w**, the accompanying F.St.'s has been prepared in all material respects, in accordance with [the applicable financial reporting framework].
- When the modification **arises from an inability to obtain SAAE**, the auditor shall use the corresponding phrase "except for the possible effects of the matter(s) ..." for the modified opinion.





When the auditor expresses a qualified opinion, it would not be appropriate to use phrases such as “with the foregoing explanation” or “subject to” in the Opinion section as these are not sufficiently clear or forceful.

### Adverse Opinion

When the Auditor expresses an Adverse Opinion, the Auditor shall state that, in the Auditor's Opinion, **because of significance of the matter(s) described in the Basis for Adverse Opinion Paragraph-**

a. When reporting in accordance with a **FPF/w**,

The Financial Statements **do not present fairly** (or give a true & fair view) in accordance with the Applicable Financial Reporting Framework; **OR**

b. When reporting in accordance with a **CF/w**,

The Financial Statements have **not been prepared, in all material respects**, in accordance with the Applicable Financial Reporting Framework.

### Disclaimer of Opinion

When the Auditor Disclaims an Opinion due to an inability to obtain SAAE, the Auditor shall-

a. State that the Auditor **does not express an Opinion** on the accompanying financial statements.

b. State that, **Because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion paragraph, the Auditor has not been able to obtain SAAE** to provide a basis for an audit opinion; and

c. **Amend the statement** required by SA 700 (Revised), which indicates that the F.St.'s have been audited to state that the auditor was engaged to audit the financial statements.

## 5.7 Basis for Opinion

### Description of Matters

When the Auditor modifies the Opinion on the F.St.'s, the Auditor shall, addition to the specific elements required by SA 700 (Revised)

### Placement & Heading

- **Amend the heading “Basis for Opinion”** to "Basis for Qualified Opinion", "Basis for Adverse opinion", on “Basis for Disclaimer of Opinion”, as appropriate and
- Within this section, include a description of the matter giving rise to the modification

### Quantification

**If there is a MMSt of the F.St.'s that relates to specific amounts in the F.St.'s (including Quantitative Disclosures in the notes to the financial statements),**

the Auditor shall include in the Basis for Opinion Section, a **description and quantification** of the financial effects of the mis-statement, unless impracticable.

If it is **not practicable to quantify** the financial effects, the auditor shall so state in this section

### Narrative Disclosures

If there is a M.M.St. of the F.St.'s that **relates to narrative disclosures**, the Auditor shall include in the Basis for Opinion Section an explanation of how the disclosures are mis-stated.





### Non-Disclosure of Information

If there is a M.M.St. of the F.St.'s that **relates to the non-disclosure** of information required to be disclosed, the Auditor shall-

- Discuss the non-disclosure with **TCWG**,
- Describe in the Basis for Opinion Section- the **nature of the omitted information**, and
- Unless prohibited by Law or Regulation, **include the omitted disclosures**, provided it is practicable to do so and Auditor has obtained SAAE about the omitted information.

### Modifications

If the modification results from an inability to obtain sufficient appropriate audit evidence, the Auditor shall **include** in the Basis for Opinion Section, **the reasons for that inability**.

### In case of Adverse Opinion / Disclaimer Opinion

When the auditor expresses a qualified or adverse opinion, the auditor shall **amend the statement** about whether the audit evidence obtained is SAA to provide a basis for the auditor's opinion.

When the auditor **disclaims** an opinion on the financial statements, the auditor's report shall not include the elements of SA 700 (Revised). Those elements are:

- ✓ A **reference to the section** of the A.'s.R. where the auditor's responsibilities are described; and
- ✓ A **statement** about whether the audit evidence obtained is SAA to provide a basis for the A.'s.O

Even if the Auditor has expressed an Adverse Opinion or Disclaimed an Opinion on the F.St.'s, the Auditor shall **describe in the Basis for opinion section, the reasons for any other matters** of which the Auditor is aware that would have required a modification to the Opinion, and the effects thereof.

## 5.8 Description of auditors' responsibility

### Qualified / Adverse Opinion

When the Auditor expresses a Qualified or Adverse Opinion, the Auditor shall amend the description of the **Auditor's responsibility** to state that the Auditor believes that the audit evidence the Auditor has obtained is SAA to provide a basis for the Auditor's Modified Audit Opinion.

### Disclaimer of Opinion

When the auditor disclaims an opinion on the financial statements due to an **inability to obtain SAAE**, the auditor shall amend the description of the auditor's responsibilities required by paragraphs 38-40 of SA 700 (Revised) to include only the following:

- ✓ A **statement** that the **auditor's responsibility** is to conduct an audit of the entity's financial statements in accordance with SA's and to issue an auditor's report;
- ✓ A statement that, **however, because of the matter(s) described** in the Basis for Dop.S, the auditor was not able to obtain SAAE to provide a basis for an audit opinion on the F.ST.'s; and
- ✓ The stat. about **auditor independence** and other **ethical responsibilities** required by SA 700 (Revised).



**5.9 Considerations When Auditor Disclaims an Op. on the F.St.'s**

Unless required by L or R, when the auditor disclaims an opinion on the F.St.'s, the auditor's report shall not include a KAM section in accordance with SA 701.

**5.9 Considerations When Auditor Disclaims an Op. on the F.St.'s**

Unless required by L or R, when the auditor disclaims an opinion on the F.St.'s, the auditor's report shall not include a KAM section in accordance with SA 701.

**5.10 Communication with Those Charged with Governance**

When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with TCWG the circumstances that led to the expected modification and the wording of the modification.

**READ ILLUSTRATION- 13**

**6**

**Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report. (SA 706)**

**EFFECTIVE DATE**

Audit of Financial Statements for periods beginning on or after 1 April, 2018 [Para 5]

**SCOPE OF SA**

1. This SA deals with **additional communication** in the Auditor's Report when the Auditor considers it necessary to draw Users' attention -
  - a. to a **matter or matter(s)** presented or disclosed (P or D) in the Financial Statements that are of such **importance** that they are fundamental to Users' understanding of the Financial Statements
  - b. to any **matter(s) other than** those presented or disclosed in the Financial Statements that are relevant to Users' understanding of the audit, the Auditor's responsibilities or the Auditor's Report.

**6.1 Objective of the Auditor as per SA 706**

As per SA 706 (Revised) on "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report",

The objective of the Auditor, having formed an Opinion on the F.St.'s, is to draw Users' attention, when in the judgment it is **necessary** to do so, by way of clear additional communication in the Auditor's Report, to -

- a. A **matter**, although **appropriately P or D** in the Financial Statements, that is of such importance that it is fundamental to User's understanding of the Financial Statements, or
- b. As appropriate, **any other matter** that is relevant to Users' understanding of the audit, the Audit responsibilities or the Auditor's Report.

## Definitions

- **Emphasis of Matter Paragraph**  
A Paragraph included in the Auditor's Report that refers to a matter appropriately **P** or **D** in the Financial statements that, in the Auditor's judgment, is of such importance that it is fundamental to Users' understanding or the Auditor's Report.
- **Other Matter paragraph**  
A Paragraph included in the Auditor's Report that refers to a matter other than those presented or disclosed in Financial Statements that, in the Auditor's judgment, is relevant to Users' understanding of the audit, the Auditor's responsibilities or the Auditor's Report

## 6.2 Emphasis of Matter Paragraphs in the Auditor's Report

### Meaning

If the Auditor considers it necessary to draw Users' attention to a matter presented or disclosed in the F.St.'s that in the A.'s.J., is of such importance that it is fundamental to Users' understanding of the F.St.'s, the Auditor shall include an EOMP in the Auditor's Report, Provided -

- a. The auditor would **not be required to modify** the opinion in accordance with SA 705 (Revised) as a result of matter; and
- b. When SA 701 applies, the matter has **not been determined to be a key audit matter** to be communicated in auditor's report.

### Separate section for Emphasis of Matter paragraph

When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:

- a. **Include the paragraph within a separate section** of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter".
- b. Include in the paragraph a **clear reference to the matter being emphasized** and to where relevant disclosure that fully describe the matter, can be found in the financial statements  
the paragraph shall refer **only to information P or D** in the financial statements; and
- c. **Indicate that the Auditor's Opinion is not modified** in respect of the matter emphasized.

**Examples of circumstances** Where the Auditor may consider it necessary to include an Emphasis of Matter Paragraph are-

- a. An uncertainty relating to the future outcome of an exceptional litigation or regulatory action.
- b. Early application (where permitted) of a new Accounting Standard that has a pervasive effect on the F.ST.'s in advance of its effective date.
- c. A significant subsequent event that occurs between the date of the F.ST.'s and the date of the auditor's report.
- d. A major catastrophe that has had, or continues to have, a significant effect on the Entity's Financial position.

## 6.3

**The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion**





An Emphasis of Matter paragraph is **not a substitute for either-**

- a. A **modified opinion** in accordance with SA 705 (Revised) when required by the circumstances of a specific audit engagement;
- b. **Disclosures in F.St.'s** that the Applicable FRF requires Management to make or that are otherwise necessary to achieve fair presentation
- c. **Reporting in accordance with SA 570 (Revised)** when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.

**READ ILLUSTRATION- 14**

### 6.4 Other Matter Paragraphs in the Auditor's Report

#### Situation

If the Auditor **considers it necessary to communicate a matter other than those that are P or D** in the F. ST's that, in the A.'s J., is relevant to Users' understanding of-

(a) the audit, or (b) the Auditor's Responsibilities, or (c) the Auditor's Report, **Provided**

- ✓ Such communication is **not prohibited** by Law or Regulation.
- ✓ When SA 701 applies, the matter has not been **determined to be a KAM** to be communicated in the auditor's report.

#### Separate section OMP

When the auditor includes an Other Matter paragraph in the auditor's report, the auditor shall **include the paragraph within a separate section** with the heading "Other Matter," or other appropriate heading.

### 6.5 Communication with TCWG

If the Auditor **expects to include an EOM or an OMP** in his Report, he shall communicate with TCWG regarding this expectation and the proposed wording of this Paragraph.

## 7

### COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT (SA 701)

#### EFFECTIVE DATE

Audit of Financial Statements for periods beginning on or after 1st April 2018 [Para 6]

#### SCOPE

SA 701 deals with

- The auditor's responsibility to **communicate key audit matters** in the auditor's report
- It is intended to **address both, the auditor's judgment** as to what to communicate in the auditor's report and **form and content** of such the communication.

#### DEFINITION

**Key audit matters**

- ✓ Those matters that, in the auditor's **professional judgment**, were of most significance in the audit of





the financial statements of the current period.

- ✓ Key audit matters are selected from matters communicated with TCWG.

### 7.1 Purpose of Communicating Key Audit Matters

- The purpose of communicating key audit matters is to **enhance** the **communicative value** of the auditor's report by providing greater transparency about the audit that was performed.
- Communicating key audit matters provides **additional information** to intended users of the financial statements ("intended users") to assist them in understanding those matters, that in the auditor's professional judgment, were of most significance in the audit of the F.St.'s of the current period.
- Communicating key audit matters may also **assist intended users** in understanding the entity and areas of significant management judgment in the audited financial statements.

### 7.2 Objectives of the Auditor regarding Key Audit Matters

The objectives of the auditor are to **determine key audit matters** and, having formed an opinion on the financial statements, communicate that matter by describing them in auditor's report.

### 7.3 Determining Key Audit Matters

The auditor shall **determine, from the matters communicated** with TCWG, those matters that required significant auditor attention in performing the audit.

In making this determination, the auditor shall **take into account the following:**

1. Areas of **higher assessed RoMM**, or significant risks identified in accordance with SA 315
2. **Significant auditor judgments** relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having **high estimation uncertainty**.
3. The **effect** on the audit of **significant events** or transactions that occurred during the period.

The auditor shall **determine which** of the **matters** determined in accordance with paragraph were of most **significance** in the audit of the financial statements of the current period and therefore are the KAM.

### 7.4 Communicating Key Audit Matters

The auditor shall describe each key audit matter, using an appropriate subheading, in a **separate section** of the auditor's report under the heading "Key Audit Matters".

#### **Introductory language to state**

The introductory language in this section of the auditor's report shall state that

1. **KAM's** are those **matters** that, in the auditor's professional judgment, were of **most significance** in the audit of the financial statements [of the current period]; and
2. These matters were **addressed in the context of the audit** of the financial statements as a whole and in the auditor's **opinion thereon**, and the auditor does not provide a separate opinion on these matters.

**7.5****Communicating Key Audit Matters- not a substitute for disclosure in the Financial Statements etc.**

Communicating KAM in the auditor's report is in the context of auditor having formed an opinion on the F.St.'s as a whole. **Communicating KAM in the auditor's report is not a substitute for:**

1. Disclosures in the financial statements that the applicable FRF requires management to make or that are otherwise necessary to achieve fair presentation;
2. The auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised);
3. Reporting in accordance with SA 570 (Revised) when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability as going concern; to continue as a going concern.
4. A separate opinion on individual matters.

**7.6****Communication with TCWG**

The auditor shall communicate with TCWG:

- ✓ Those matters that the auditor has determined to be the key audit matters; or
- ✓ If applicable, depending on the facts and circumstances of the entity and the audit, the auditor's determination that there are no key audit matters to communicate in the auditor's report.

**8****COMPARATIVE INFORMATION - CORRESPONDING FIGURES & COMPARATIVE FINANCIAL STATEMENTS (SA 710)****EFFECTIVE DATE**

Audit of Financial Statements for periods beginning on or after 1st April 2011

**SCOPE**

1. This SA deals with the Auditor's responsibilities regarding Comparative Information in an audit of F.St.'s.
2. When the F.St.'s of the prior period has been audited by a Predecessor Auditor or were not audited, the requirements & guidance in SA 510 regarding Opening Balances also apply.

**8.1****The Nature of the Comparative Information****Basis**

1. The nature of the comparative information that is presented in an Entity's Financial Statements depends on the requirements of the Applicable FRF.
2. There are two approaches to the Auditor's reporting responsibilities are-
  - a. **Corresponding Figures:** The Auditor's opinion on the F.St.'s refers to the current period only.
  - b. **Comparative Financial Statements:** The Auditor's opinion refers to each period for which financial statements are presented.





### Objectives

1. To obtain SAAE about whether the **Comparative Information** included in the Financial Statements has been presented, in all material respects, in accordance with the requirements for Comparative information in the applicable FRF.
2. To report in accordance with the Auditor's reporting responsibilities.

### Definitions

The amounts and disclosures included in the F.St.'s in respect of one or more prior periods, in accordance with applicable FRF.

## 8.2 Audit Procedures regarding comparative information

### Basic Evaluation of Comparative information

- a. The Auditor shall determine whether the F.St.'s include the CI required by the Applicable FRF and whether such information is **appropriately classified**.
- b. For this purpose, the Auditor shall evaluate whether
  - The CI agrees with the amounts & other disclosures presented in the prior period, and
  - The **Accounting Policies** reflected in the CI are consistent with those applied in the Cr. Prd. or if there have been changes in Accounting Policies, whether those changes have been properly accounted for adequately presented and disclosed.

### Additional Procedure in case of Material mis-statement

- a. If the Auditor becomes aware of a possible MMSt. in the Comparative Information while performing the current period audit, he shall perform such **additional audit procedures** as are necessary in the circumstances to obtain SAAE to determine whether a material mis-statement exists.
- b. If the Auditor had audited the Prior Period's Financial Statements, he shall also follow the relevant requirements of SA- 560

### Written Representation

As required by SA 580, the Auditor shall-

- a. Request Written Representations for **all periods** prior to in the Auditor's Opinion.
- b. Also obtain a **specific** Written Representation regarding any Prior Period Item that is **separately disclosed** in the current year's Statement of Profit and Loss.

## 8.3 Audit Reporting regarding Corresponding Figures

### Basic Principle

When Corresponding Figures are presented, the Auditor's Opinion **shall not refer to the Corresponding figures**, except in the following circumstances:

### Effect of Pr.Prd. Modified Report





If the Auditor's Report on the Prior Period (as previously issued) included a **Qualified Opinion**, a **Disclaimer of Opinion**, or an **Adverse Opinion**, and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the Cr.P.F.ST.'s.

In the "**Basis for Modification**" Paragraph in the Auditor's Report, the Auditor shall either -

- a. **Refer to both the CPF's and the Co.F.'s in the description of the matter giving rise to the modification, when the effects or possible effects of the matter on the CPF's are material, or**
- b. **In other cases, explain that the Audit Opinion has been modified, because of the effects or possible effects of the unresolved matter on the comparability of the CPF's and the Co.F.'s.**

**Prior Period Material Mis-statement**

If the Auditor obtains audit evidence that a material mis-statement exists in the Prior Period F.St.'s on which an **Unmodified Opinion** has been previously issued, the Auditor shall-

- a. **verify** whether the mis-statement has been **dealt** with as required under the Applicable Financial Reporting Framework and the **appropriate disclosures** have been made in the Current Period F.ST.
- b. **if not**, express a **Qualified Opinion** or an **Adverse Opinion** in the Auditor's Report on the Current period Financial Statements, modified w.r.t. the Corresponding Figures included therein.

**Prior Period Financial Statements Not Audited**

- a. If the Prior Period Financial Statements were not audited, the Auditor shall - **State in an OMP** in his Report that the Co.F.'s are unaudited.
- b. Such a statement does not, however, relieve the Auditor of the requirement to obtain SAAE, that the opening Balances do not contain mis-statements that materially affect the Cr.Pr.F.St.'s.

**Prior Period Financial Statements Audited by a Predecessor Auditor**

If the F.St.'s of the Prior Period was audited by a Predecessor Auditor and the Auditor is **permitted** by Law or regulation to **refer to the predecessor auditor's report** on the corresponding figures and **decides to do so**, the Auditor shall state in an **OMP** in the Auditor's Report-

- a. That the F.St.'s of the Prior Period were **audited** by the Predecessor Auditor,
- b. The **type of Opinion** expressed by the Predecessor Auditor &, if the Opinion was modified, the reason therefore, &
- c. The **Date** of that Report.

**8.4 Comparative Financial Statements**

**Definition**

Comparative information where amounts and other disclosures for the prior period are included for comparison with the financial statements of the current period but, if audited, are referred to in the auditor's opinion. The level of information included in those comparative financial statements is comparable with that of the financial statements of the current period.





### Basic Principle

- a. When **Com.F.St.'s** are presented, the Auditor's **Opinion shall refer to each period** for which F.St.'s are presented and on which an audit opinion is expressed.
- b. Since the **A's.R on Com.F.S.** applies to the F.ST.'s for each of the periods presented, he may **express** a Qualified Opinion or an Adverse Opinion, Disclaim an Opinion, or include an **EOMP** w.r.t. one or more periods, while expressing a different Auditor's Opinion on the F.ST.'s of the other period.

### Prior Period Financial Statements Audited by a Predecessor Auditor

If the Financial Statements of the Prior Period were audited by a Predecessor Auditor, in addition to **expressing on opinion on the Current Period's** Financial Statements, the Auditor shall **state in an OMP-**

- That the financial statements of the prior period were audited by a predecessor auditor;
- The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefor;
- The date of that report,

unless the predecessor auditor's report on the prior period's financial statements is revised with the financial statements.

### Effect of Prior Period Material Mis-statement

- If the Auditor **concludes** that a **material mis-statement** exists that affects the Prior Period Financial statement on which the Predecessor Auditor had previously **reported without modification**, the Auditor shall communicate the mis-statement with the appropriate level of Management and TCWG and request that the Predecessor Auditor be informed.
- If the Prior Period Financial Statements are amended, and the Predecessor Auditor agrees to issue a **New Auditor's Report** on the amended Financial Statements of the Prior Period, the Auditor shall report only on the Current Period.

### Prior Period Financial Statements Not Audited

- a. If the Prior Period Financial Statements were not audited, the Auditor shall **state in an OMP** that the Comparative Financial Statements are **unaudited**.
- b. Such a statement does not, however, relieve the Auditor of the requirement to obtain SAE that the opening balances do not contain mis-statements that materially affect the Current Period's Financial statements.

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## AUDIT OF BRANCH OFFICE ACCOUNTS

As per section 128(1) of the Companies Act, 2013,

### PLACE OF KEEPING BOA

Every company shall prepare and keep at

- ✓ **its registered office-** books of account and other relevant books and papers and F.St.'s for every financial year which give a true and fair view of the state of the affairs of the company,
- ✓ **including that of its branch office or offices, if any, and**
- ✓ **explain the transactions effected both at the registered office and its branches and**
- ✓ **such books shall be kept on accrual basis and according to the double entry system of accounting.**



It may be noted that all or any of the books of account aforesaid and other relevant papers may be kept at such other place in India as the Board of Directors may decide and where such a decision is taken, file with the Registrar a notice in writing giving the full address of that other place.

Students may also note that the company may keep such books of account or other relevant papers in electronic mode in such manner as may be prescribed.

**DEEMED COMPLIANCE**

**Sub-section (2)** provides that

- where a company has a branch office in India or outside India,
- it shall be deemed to have complied with the provisions of sub-section (1),
  - ✓ if proper books of account relating to the transactions effected at the branch office are kept at that office and
  - ✓ proper summarized returns periodically are sent by the branch office to the company at its registered office or the other place referred in (1).

**DUTIES & POWERS**

Further, **sub-section (8) of section 143** of the Companies Act, 2013, prescribes the duties and powers of the co.'s auditor with reference to the audit of the branch and the branch auditor.

**AUDIT OF BRANCH OFFICE A/c's**

1. **Where a company has a branch office,**  
the accounts of that office shall be audited either
  - ✓ by the auditor appointed for the company (herein referred to as the company's auditor) under this Act or
  - ✓ by any other person qualified for appointment as an auditor of the company under this Act and appointed as such under section 139, or
  
2. **where the branch office is situated in a country outside India,**  
the accounts of that office shall be audited either
  - ✓ by the company's auditor or by an accountant or
  - ✓ by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country

And

the **duties and powers** of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be such as may be prescribed.

It may be noted that the branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the auditor of the company who shall deal with it in his report in such manner as he considers necessary.

**Further as per rule 12 of the Companies (Audit and Auditors) Rules, 2014,**

- ✓ the branch auditor shall submit his report to the company's auditor and
- ✓ reporting of fraud by the auditor shall also extend to such branch auditor to the extent it relates to the concerned branch

- **Principal auditor**  
means the auditor with responsibility for reporting on the FI of an entity when that FI includes the FI of one or more components audited by another auditor.
- **Another auditor**  
means an auditor, other than the principal auditor, with responsibility for reporting on the FI of a component which is included in the FI audited by the principal auditor.
- **Component**  
means a division, branch, subsidiary, joint venture, associated enterprises or other entity whose FI is included in the financial information audited by the principal auditor.

#### USING THE WORK OF ANOTHER AUDITOR:

When the accounts of the branch are audited by a person other than the company's auditor,

- ✓ there is need for a clear understanding of the
- ✓ **role** of such auditor and the company's auditor
- ✓ i.r.t the audit of the accounts of the branch and the audit of the company as a whole, also
- ✓ there is great necessity for a proper rapport between these two auditors for the purpose of an effective audit.

In recognition of these needs, the Council of the Institute of Chartered Accountants of India has dealt with these issues in SA 600, "Using the Work of another Auditor".

It makes clear that in certain situations,

- **Right to Visit Component**
  - ✓ the **statute** governing the entity may confer a right on the principal auditor to visit a component and examine the books of account and other records of the said component, if he thinks it necessary to do so.
- **Rely Upon work**
  - ✓ Where another auditor has been appointed for the component, the principal auditor would normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it essential for him to visit the component and/or to examine the books of account and other records of the said component.
- **Procedures to Obtain SAAE**
  - ✓ Further, it requires that the principal auditor should perform procedures to obtain SAAE, that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment.
- **Procedures to be Performed While using the work**
  - ✓ When using the work of another auditor, the principal auditor should ordinarily perform the following procedures:
    - a. Advise the other auditor of the use that is to be made of the other auditor's work and report and make sufficient arrangements for co-ordination of their efforts at the planning stage of the audit.





b. Advise the other auditor of the **significant accounting**, auditing and reporting requirements and

➤ **Visit**

✓ The principal auditor may also wish to visit the other auditor.

➤ **NTE of Procedures**

✓ The NTE of procedures will depend on the circumstances of the engagement and the principal auditor's knowledge of the professional competence of the other auditor.

This knowledge may have been enhanced from the review of the previous audit work of the other auditor.

Refer TYOU-4

10

## JOINT AUDIT

The practice of appointing Chartered Accountants as **joint auditors** is quite widespread in big companies and corporations.

Joint audit basically implies pooling together the resources and expertise of more than one firm of auditors to render an expert job in a given time period which may be difficult to accomplish acting individually.

It **essentially involves** sharing of the total work. This is by itself a **great advantage**.

### ADVANTAGES

1. Sharing of expertise
2. Advantage of mutual consultation.
3. Lower workload.
4. Better quality of performance.
5. Improved service to the client.
6. Displacement of the auditor of the company taken over in a take - over often obviated
7. In respect of multi-national companies, the work can be spread using the expertise of the local firms which are in a better position to deal with detailed work and the local laws and regulations
8. Lower staff development costs.
9. Lower costs to carry out the work.
10. A sense of healthy competition towards a better performance.

### DISADVANTAGES

1. The fees being shared.
2. Psychological problem where firms of different standing are associated in the joint audit
3. General superiority complexes of some auditors.
4. Problems of co-ordination of the work.
5. Areas of work of common concern being neglected.
6. Uncertainty about the liability for the work done.





### SA 299 LAYS DOWN SPECIAL CONSIDERATIONS IN CARRYING OUT AUDIT BY JOINT AUDITOR

The Institute of Chartered Accountants of India has issued Standard on Auditing (SA) 299 (Revised), "Joint Audit" of Financial Statements" which lays down the principles for effective conduct of joint audit to achieve the overall objectives of the auditor as laid down in SA 200 "Overall Objectives of the Independent Auditor and the conduct of an audit in accordance with Standards on Auditing". This Standard deals with the special considerations in carrying out audit by joint auditors. It requires that-

- I. the engagement partner and other key members of the engagement team from each of the joint auditors should be involved in planning the audit.
- II. the joint auditors should jointly establish an overall audit strategy which sets the scope, timing and direction of the audit, and also guides the development of the audit plan.
- III. before the commencement of the audit, the joint auditors should discuss and develop a joint audit plan
 

**In developing the joint audit plan, the joint auditors should:**

  1. identify **division** of audit areas and common audit areas;
  2. ascertain the **reporting objectives** of the engagement;
  3. consider and communicate among all joint auditors the **factors** that are **significant** in directing the engagement team's efforts;
  4. consider the **results of preliminary** engagement activities, or similar engagements performed earlier.
  5. ascertain the **NTE of resources necessary** to accomplish the engagement.
- IV. each of the joint auditors should consider and assess the **RoMM's** and communicate to other joint auditors.
- V. the joint auditors should discuss and document the nature, timing, and the extent of the **audit procedures** for (I) common and (II) specific allotted areas of audit to be performed.
- VI. the joint auditors should obtain common engagement letter and common MRL.
- VII. the work allocation document should be signed by all the joint auditors and communicated to TCWG.

It further states that, in respect of audit work divided among the joint auditors, **each joint auditor shall be responsible only for the work allocated** to such joint auditor including proper execution of the audit procedures. On the other hand, all the joint auditors shall be jointly and severally responsible for:

### JOINTLY AND SEVERALLY RESPONSIBLE

On the other hand, all the joint auditors shall be jointly and severally responsible for

- I. the audit work which is not divided among the joint auditors and is carried out by all joint auditors;
- II. decisions taken by all the joint auditors under audit planning in respect of common audit areas;
- III. matters which are brought to the notice of the joint auditors by any one of them and there is an agreement among the joint auditors on such matters;
- IV. examining that the F.St.'s of the entity complies with the requirements of the relevant statutes;
- V. presentation and disclosure of the financial statements as required by the applicable FRF;
- VI. ensuring that the audit report complies with the requirements of the relevant statutes, applicable standards on Auditing and other relevant pronouncements issued by ICAI.

### COMMUNICATION MATTERS PRIOR TO AUDIT COMPLETION

- In case a joint auditor comes across matters

- ✓ which are **relevant** to the areas of responsibility of other **joint auditors** and
- ✓ which deserve their attention, or



✓ which require disclosure or require discussion with, or

✓ application of judgment by other joint auditors,

the said joint auditor shall communicate the same to all the other joint auditors in writing prior to the completion of the audit.

**ISSUE COMMON AR**

- It may be noted that the joint auditors are required to issue common audit report.

**SEPARATE AUDIT REPORT**

However, **where** the joint auditors are in **disagreement with regard to**

- ✓ the opinion or any matters to be covered by the audit report, they shall express their opinion in a separate audit report.

**MAKE REFERENCE**

- In such circumstances, the audit report(s) issued by the joint auditor(s) shall make a reference to each other's A.R. (s).

II

**REPORTING REQUIREMENTS UNDER THE COMPANIES ACT, 2013**

Sections 143 of the Companies Act, 2013 specifies the duties of an auditor of a company in a quite comprehensive manner. It is noteworthy that scope of duties of an auditor has generally been extending over all these years.

**REPORTING REQUIREMENT RELATING TO MATTERS STATED IN SECTION 143(1)**

It is the duty of auditor to inquire into the following matters:

- whether **loans and advances** made by the company **on the basis of security** have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members.
- whether **transactions** of the company which are **represented merely by book entries** are prejudicial to the interests of the company;
- where the **company not being an investment company or a banking company**, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;
- whether **loans and advances** made by the company have been shown as deposits;
- whether **personal expenses** have been charged to revenue account;
- where it is **stated in the books and documents** of the company that **any shares have been allotted for cash** whether cash has actually been received in respect of such allotment, and if no cash has actually been so received whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.

**RESEARCH COMMITTEE**

- ✓ "However, the auditor is **not** required to **report on the matters specified in sub-section (1)** unless he has any special comments to make on any of the items referred to therein.
- ✓ If he is **satisfied as a result of the inquiries**, he has no further duty to report that he is so satisfied.





Therefore, it could be said that the auditor should **make a report to the members** in case he finds answer to any these matters is adverse.

### REPORTING ON ACCOUNTS EXAMINED

- Under provisions of Section 143(2), the auditor shall make a report to the members of the company **on the account examined by him and on every financial statement.**  
which are required by or under this Act to be laid before the company in general meeting and the report shall be made after taking into account the provisions of this Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of this Act or any rules made thereunder or under any order made under sub-section (11).
- Further, auditor has to report whether to best of his information and knowledge, the said accounts, financial statements give a true and fair view of the state of the company's affairs as at the end of its financial year and profit or loss and cash flow for the year and following matters as prescribed **under relevant rules Rule 11 of the Companies (Audit and Auditors) Rules, 2014.**

Further, in terms of section 143(3), the Auditor's Report Shall Also State:

#### ➤ **Sought & Obtained Info**

- a. whether he has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, the details thereof and the effect of such information on the financial statements.

#### ➤ **BOA**

- b. whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches visited by him.

#### ➤ **Report on Branch A/Cs**

- c. whether the report on the accounts of any branch office of the company audited under sub-section (8) by a person other than the company's auditors has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report.

#### ➤ **B.S. + P&L A/c**

- d. whether the company's balance sheet and profit and loss account dealt with in the report are in agreement with the books of account and returns;

#### ➤ **A.S.'s**

- e. whether, in his opinion, the Financial Statements **comply** with the accounting standards

#### ➤ **Observations / Comments**

- f. the observations or comments of the auditors on financial transactions or matters which have any **adverse effect on the functioning** of the company;



➤	<b>Director Disqualified</b>
	g. whether any director is disqualified from being appointed as a director under section (164) (2);
➤	<b>Qualification</b>
	h. any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;
➤	<b>Adequacy of IFC's</b>
	i. whether the company has adequate internal financial controls with reference to financial statements in place and the operating effectiveness of such controls;
➤	<b>Non- Applicability Pvt. Co</b>
	However, it may be noted that the reporting requirement on adequacy of internal financial controls (IFCs) with reference to financial statements shall not be applicable to a private company which is a-
	I. One Person Company; or
	II. Small Company; or
	III. Company having turnover less than Rs. 50 crores as per latest audited financial statement and having aggregate borrowings from banks or financial institutions or anybody corporate at any point of time during the financial year less than Rs. 25 crores.
➤	<b>Other Matters Prescribed</b>
	j. such other matters as are prescribed in Rule 11 of the Companies (Audit and Auditors) Rules, 2014 which are as under: -
	a. whether the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement.
	b. whether the company has made provision, as required under any law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts
	c. whether there has been any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund (IEPF) by the company.
	<b>Management Representation</b>
	1. Whether the management has represented that, to the best of it's knowledge and belief, other than as disclosed in the notes to the accounts,
	✓ no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds)
	✓ by the company to or in any other person(s) or entity(ies), including foreign entities ("Intermediaries"),
	✓ with the understanding, whether recorded in writing or otherwise,
	✓ that the Intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries;
	2. Whether the management has represented, that, to the best of it's knowledge and belief, other than as



disclosed in the notes to the accounts,

- ✓ **no funds have been received by the company from any person(s) or entity(ies), including foreign entities (“Funding Parties”),**
- ✓ **with the understanding, whether recorded in writing or otherwise,**
- ✓ **that the company shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries; and**

3. **Based on such audit procedures that the auditor has considered reasonable and appropriate in the circumstances, nothing has come to their notice that has caused them to believe that the representations under sub-clause (i) and (ii) contain any material mis-statement.**

#### **Compliance w.r.t Dividend**

- ✓ **Whether the dividend declared or paid during the year by the company is in compliance with section 123 of the Companies Act, 2013**

#### **Accounting Software**

Whether the company, has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention.

While reporting, where any of the matters required to be included in the audit report is answered in the negative or with a qualification, the report shall state the reasons therefor in terms of Section 143(4). Further, every auditor shall comply with the auditing standards as required under section 143(9).

#### **REPORTING ON ANY OTHER MATTER SPECIFIED BY CENTRAL GOVERNMENT**

- **As per section 143(11), the Central Government may, in consultation with the National Financial Reporting Authority by general or special order, direct, in respect of such class or description of companies, as may be specified in the order, that the auditor’s report shall also include a statement on such matters as may be specified therein.**

**[Note: Students may note that Companies (Auditor’s Report) Order, 2020 has been notified in this perspective which is discussed later in this chapter as Reporting under Companies (Auditor’s Report) Order, 2020]**

#### **REPORTING ON FRAUDS:**

##### **Reporting to the Central Government-**

- **As per sub-section (12) of section 143 of the Companies Act, 2013, read with Rule 13 of the companies (Audit and Auditors) Rules, CAAR 2014,**
  - ✓ **if an auditor of a company in the course of the performance of his duties as auditor,**
  - ✓ **has reason to believe**
  - ✓ **that an offence of fraud which involves or is expected to involve individually an amount of 1 crore or above,**
  - ✓ **is being or has been committed in the company by its officers or employees,**

**the auditor shall report the matter to the CG within such time and in such manner as may be prescribed.**



**Reporting to the Audit Committee or Board-**

- In case of a fraud involving lesser than the specified amount [i.e. less than ` 1 crore], the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases, within such time and in such manner as prescribed.

Besides, auditor has also to report matters pertaining to fraud at point (xi) of paragraph 3 of CARO, 2020 which is discussed subsequently.

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**REPORTING UNDER COMPANIES (AUDITOR'S REPORT) ORDER, 2020 [CARO, 2020]**

**SEC. 143(II) POWERS & CARO 2016 SUPERSESSION**

- In exercise of the powers conferred by sub-section (11) of section 143 of the Companies Act, 2013 (18 of 2013) and in supersession of the Companies (Auditor's Report) Order, 2016, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (ii), vide number S.O. 1228 (E), dated the 29th March, 2016, except as respects things done or omitted to be done before such supersession,
- the CG, after **consultation** with the **NFRA** constituted under section 132 of the Companies Act, 2013, hereby **makes the following Order, namely:**

**SHORT TITLE, APPLICATION AND COMMENCEMENT-**

Short title: This Order may be called the Companies (Auditor's Report) Order, 2020.

**APPLICABILITY**

It shall apply to every company including a foreign company u/s 2(42)

**NON- APPLICABILITY**

1. a **banking** company as defined u/s 5(c) of the Banking Regulation Act, 1949;
2. an **insurance** company as defined under the Insurance Act, 1938;
3. a company **licensed to operate** u/s 8 of the Companies Act;
  - ✓ a **One Person Company** u/s 2(62) & **Small company** u/s 2(85) of the Companies Act; and
  - ✓ a **small company** as defined in **clause (85) of section 2** of the Companies Act;
4. a **Private limited company not being subsidiary/holding of Public company** with a PUC & Reserves upto 1 crore as on the B/S date and
  - o/s Borrowings upto 1 crore from any bank or FI at any point of time during the FY and
  - Turnover upto 10 crores as disclosed in S-III of CoA 2013 [including revenue from disclosed operations] during the FY as per Financial Statements.

**COMMENCEMENT**

It shall come into force on the date of its publication in the Official Gazette.

**AUDITOR'S REPORT TO CONTAIN MATTERS SPECIFIED IN PARAGRAPHS 3 AND 4.**

**Every report made by the auditor u/s 143, on the accounts of every co. examined by him to which this Order applies for the FY commencing on or after 1st April, 2019, shall contain the matters specified.**



**Examples** Educating Child' is a limited company registered under section 8 of the Companies Act, 2013. In the given case, 'Educating Child' is licensed to operate under section 8 of the Companies Act, 2013. Therefore, CARO, 2020 shall not be applicable to 'Educating Child' accordingly.

### Matters to be included in the auditor's report (Paragraph- 3)

#### ➤ **Records of Fixed assets PPE / Intangible Assets, Title Deeds & Proceedings Clause (i)**

- a. A. whether the company is maintaining **proper** records showing full particulars, including quantitative details and situation of Property, Plant and Equipment;
- B. whether the company is maintaining **proper** records showing full particulars, of intangible assets;
- b. whether these Property, Plant and Equipment have been **physically verified by the management** at reasonable intervals; whether any material **discrepancies were noticed** on such verification and if so, whether the same have been properly dealt with in the books of account;
- whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company,
- whether the company has **revalued its PPE** (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is **based on the valuation by a Registered Valuer**; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets;
- whether any **proceedings have been initiated or are pending** against the company for holding any **benami property** under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, if so, whether the company has appropriately disclosed the details in its F.St.'s;

#### ➤ **Records of Inventory & Working Cap. Clause ii**

- a. whether **physical verification** of inventory has been conducted at reasonable intervals by the management; and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate; whether any **material discrepancies were noticed** on physical verification and if so, whether the same have been properly dealt with in the books of account;
- b. whether during any point of time of the year, the company has been **sanctioned working capital limits in excess of five crore rupees, in aggregate**, from banks or financial institutions on the basis of security of current assets;
- whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details;





➤	<b>Record of Loans Clause ii</b>
	Whether during the year the company has <b>made investments</b> in, provided any <b>guarantee or security</b> or <b>granted any loans or advances</b> in the nature of loans, secured or unsecured, to companies, firms, LLP's or any other parties, if so
a.	whether during the year the company has <b>provided loans</b> or provided <b>advances</b> in the nature of loans or <b>stood, guarantee, or provided security</b> to any other entity [not applicable to companies whose principal business is to give loans], if so, indicate- A. the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates; B. the <b>aggregate amount</b> during the year, and <b>balance outstanding</b> at the balance sheet date with respect to such loans or advances and guarantees or security to parties other than subsidiaries, joint ventures and associates (SJA)
b.	whether the <b>investments made, guarantees provided, security given</b> and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest;
	<b><u>Loans and advances in the nature of loans</u></b>
c.	in respect of loans and advances in the nature of loans, whether the <b>schedule of repayment</b> of principal and payment of interest is <b>stipulated</b> , whether the repayment is regular or not.
d.	If the <b>amount is overdue</b> , then state the amount over due for more than 90 days and whether reasonable steps have been taken by the company for recovery of the principal and interest.
e.	whether any loan or advance in the nature of loan granted which has <b>fallen due</b> during the year, has been renewed or extended or fresh loans granted to settle the overdues of existing loans given to the same parties, if so, <b>specify the aggregate amount of such dues renewed or extended or settled</b> by fresh loans and the percentage of the aggregate to the total loans or advances in the nature of loans granted during the year [not applicable to companies whose principal business is to give loans];
f.	whether the company has granted any loans or advances in the nature of loans either <b>repayable on demand</b> or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in clause (76) of section 2 of the Companies Act, 2013;
➤	<b>Compliance of Sec 185 &amp; 186</b>
	In respect of Loans, Investments, Guarantees, and Security whether provisions of section 185 and 186 of the Companies Act, 2013 have been complied with If not, provide the detail thereof.
➤	<b>Deposits</b>
	in respect of <b>deposits accepted</b> by the company or <b>amounts</b> which are <b>deemed</b> to be deposits, <b>whether</b>





*the directives issued by the RBI and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act and the rules framed thereunder, where applicable, have been complied with?*

- *If not, the nature of contraventions should be stated;*
- *If an order has been passed by CLB/NCLT/RBI/any court/any other tribunal, whether the same has been with or not?*

➤ **Cost Records**

*where maintenance of cost records has been specified by the CG u/s 148 (1) of the Companies Act whether such accounts and records have been made and maintained;*

➤ **Statutory dues**

a. *is the company regular in depositing undisputed statutory dues including Goods and Services Tax PF, ESI, income-sales-tax, wealth tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues with the appropriate authorities and*

*if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than 6 months from the date they became payable, shall be indicated by the auditor.*

b. *in case dues of income tax or GST or wealth tax or duty of customs or value added tax or cess have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned. (A mere representation to the concerned Department shall not constitute a dispute).*

➤ **Transactions Not in BoA**

*Whether any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (43 of 1961), if so, whether the previously unrecorded income has been properly recorded in the books of account during the year.*

➤ **Default in Repayments**

a. *whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported as per the format below: -*

Nature of borrowing Including debt security	Name of lender	Amount Not paid on Due date	Whether Principal or interest	No. of days delay or unpaid	Remarks, If any
	<i>lender wise details to be provided in case of defaults to banks, financial institutions and Government.</i>				

b. *whether the company is a declared wilful defaulter by any bank or FI or other lender;*

c. *whether term loans were applied for the 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;*

d. *whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount*



	to be indicated;
e.	whether the company has <b>taken any funds from any entity or person</b> on account of or to <b>meet the obligations</b> of its Subsidiaries, Joint ventures, or Associates if so, details thereof with nature of such transactions and the amount in each case;
f.	whether the company has <b>raised loans during the year on the pledge of securities held</b> in its Subsidiaries, Joint ventures or Associate companies, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised.
	<b>➤ Moneys Raised Applied to the Purpose Raised For</b>
a.	whether moneys raised by way of initial public offer (IPO) or further public offer (FPO) (including debt instruments) and <b>term loans</b> were applied for the purposes for which those are raised. If not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported;
b.	whether the company has made any <b>preferential allotment or private placement</b> of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, whether the requirements of sec 42 and 62 of the Co. Act, 2013 have been complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of non-compliance;
	<b>➤ Fraud by Company or Officers</b>
	whether any fraud by the company or officers or employees has been noticed, or reported during the year; If yes, the nature and the amount involved to be indicated; whether any report under section 143(12) of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of CAAR, 2014 with the Central Government; whether the auditor has considered whistle-blower complaints, if any, received during the year by the company.
	<b>➤ Nidhi Company</b>
	Whether the Nidhi Company has <b>complied with the Net Owned Funds to Deposits in the ratio of 1: 20</b> to meet out the liability and whether the Nidhi Company is <b>maintaining 10% unencumbered term deposits</b> as specified in the Nidhi Rules,2014 to meet out the liabilities whether there has been any <b>default</b> in payment of interest on deposits or repayment thereof for <b>any period</b> and
	<b>➤ Related Party Transactions</b>
	whether all transactions with the related parties are in compliance with section 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the F.St.'s etc. as required by the applicable accounting standards.
	<b>➤ Internal Audit System</b>
	whether the company has an IAS commensurate with the size and nature of its business; whether the reports of the IA for the period under audit were considered by the statutory auditor;



- **Non-Cash Transactions**  
Whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act, 2013 have been complied with;
- **Registration u/s 45 IA of the RBI**
- a. Whether the company is required to be registered under section 45 IA of the Reserve Bank of India Act 1934 and if so, whether the registration has been obtained.
- b. whether the company has **conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the RBI as per the RBI Act, 1934;**
- c. whether the company is a Core Investment Company (CIC) as defined in the regulations made by the RBI,  
✓ if so, whether it continues to fulfil the criteria of a CIC, and  
✓ in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria
- d. whether the Group has more than one CIC as part of the Group, if yes, indicate the number of CICs which are part of the Group;
- **Cash Losses**  
whether the company has **incurred** cash losses in the financial year and in the immediately preceding financial year if so, state the amount of cash losses;
- **Resignation of Statutory A'r**  
whether there has been any resignation of the statutory auditors during the year, if so, whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors;
- **No Material Uncertainty**  
**On the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements, the auditor's knowledge of the Board of Directors and management plans,**  
whether the auditor is of the opinion that no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date;
- 
- **Transfer of Amounts**  
whether, in respect of **other than ongoing projects**, the company has transferred unspent amount to a Fund specified in Schedule VII to the Companies Act within a period of six months of the expiry of the financial year in compliance with second proviso to sub-section (5) of section 135 of the said Act;  
whether any amount **remaining unspent** under subsection (5) of section 135 of the Companies Act **pursuant to any ongoing project**, has been transferred to special account in compliance with the provision of sub-section (6) of section 135 of the said Act;
- **Qualifications or Adverse Remarks**  
Whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the CFS,  
if yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the



**Reasons to be stated for unfavorable or qualified answers (Paragraph- 4)****➤ Unfavourable or Qualified Answer**

1. Where, in the auditor's report, the **answer to any of the questions** referred to in paragraph 3 [above matters 1-xxi] is unfavourable or qualified, the auditor's report shall also state the reasons for such unfavourable or qualified answer, as the case may be.

**➤ No Opinion**

2. Where the auditor is unable to express any opinion in answer to a particular question, his report shall indicate such fact together with the reasons why it is not possible for him to give an answer to such question.

**Test Your Understanding 1**

Maithili Thakur, a CA student, was perusing audit report of a company. Her eyes fell on an 18-digit alpha numeric number stated at end of audit report below the signatures of auditor and membership number. Make her understand objective and significance of such a randomly generated number. Is it required to be stated in case of audit reports only?

**Test Your Understanding 2**

CA. Maya Memani has conducted audit of a company. She has asked Sana, a CA student undergoing training in her office, to prepare draft audit report. Sana was part of engagement team conducting the audit. She has been further told to prepare draft report expressing unmodified opinion. After drafting para comprising unmodified opinion, Sana feels no need to provide basis for opinion. Discuss why her thinking is not proper.

**Test Your Understanding 3**

CA. Sarasbhai Patel, while conducting audit of an entity, feels that there is an atmosphere of non-cooperation all around. He has not been provided with necessary support for attending inventory count process of entity as at year end. Besides, CFO is not providing him present addresses of customers as well as suppliers for sending external confirmations. Even mail ids have not been provided on the pretext of business confidentiality. He was not able to verify revenues of entity due to lack of complete details. For verifying expenses, he has been asking for bills on a sample basis, but staff has been making lame excuses. The matter was brought to knowledge of higher echelons of management, but of no avail. The auditor feels that there could be misstatements and their possible effects would be material and affecting many aspects of financial statements. Assuming it is not possible to withdraw from engagement, what type of opinion should be expressed by auditor?

**Test Your Understanding 4**

CA. Dicky Yadav is auditor of a company having four branches. The four branches are audited by another auditor CA. Yamini Jain. The reports in respect of accounts of branches examined by her have already been sent to company auditor. During the course of audit, CA Dicky Yadav asks the branch auditor to share with her summary of audit procedures and findings in respect of accounts of branches examined. CA. Yamini Jain feels it as encroachment of her domain. Discuss the issue.





#### Test Your Understanding 5

CA. Ravi Patnaik is conducting audit of a company for which reporting requirements under CARO, 2020 are applicable. He finds that cash credit facilities amounting to ₹ 4 crores were released to the company by branch of a bank for meeting its working capital requirements. He finds that out of above funds, ₹ 1 crore have been used by company for installing effluent treatment plant to meet State pollution control Board requirements.

Is there any reporting obligation upon him under CARO,2020?

### ILLUSTRATIONS

#### Illustration 1-

M/s Smart & Associates are the statutory auditors of Hotmeals Ltd. for the FY 2021- 22. How will the auditor address the audit report issued on the financial statements for the FY 2021-22? Also give a title to the report.

#### SOLUTION

INDEPENDENT AUDITOR'S REPORT To the Members of Hotmeals Ltd.

#### Illustration 2-

Richa International is a partnership firm dealing in export of blankets. The partners of the firm are Richa and Ashish. Explain how the statutory auditor of the firm will address the auditor's report.

#### SOLUTION

INDEPENDENT AUDITORS REPORT To the Partners of Richa International

#### Illustration 3-

M/s Amitabh & Associates are the statutory auditors of Ringston Ltd. which is a company engaged in the business of manufacture of pen drives. The auditor has started drafting the audit report for the FY 2021-22. CA Amitabh, the engagement partner is of the view that the financial statements of Ringston Ltd. represent a true and fair view. Give the draft of the opinion paragraph of the audit report.

#### SOLUTION-

**Opinion:** We have audited the financial statements of Ringston Limited which comprise the Balance Sheet as at 31.03.2022 and the statement of Profit and Loss Account and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information. In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the company as at 31.03.2022 and the Profit & Loss for the year ending on that date.

**Illustration 4-**

M/s Kite Rite & Associates are the statutory auditors of Prime Deluxe Limited, for the FY 2021-22. At the time of finalising the audit report, one of the engagement team members, Mr. Robin, asked the engagement partner, CA Kite as to what all should be included in the Basis of Opinion Paragraph. The engagement partner CA Kite, explained the team in detail and asked Mr. Robin to draft such section for the auditor's report of Prime Deluxe Limited. Help Mr. Robin to draft the Basis for opinion section.

**SOLUTION-**

**Basis for Opinion-** We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Illustration 5-**

Diamond Shine Ltd. is a company engaged in the manufacture of detergent. M/s Bright & Associates are the statutory auditors of the company. Explain how the paragraph related to the management's responsibility will come in the auditor's report.

**SOLUTION-**

**Management's Responsibility for the Standalone Financial Statements** The Company's Board of Directors is responsible for the matters stated in section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance, (changes in equity) and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the accounting Standards specified under section 133 of the Act. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgements and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statement that give a true and fair view and are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those Board of Directors are also responsible for overseeing the Company's financial reporting process.

*While the world was dreaming, I was up and weaving.*  
- Prof. Vishal





#### Illustration 6-

M/s Ajay Vijay & Associates are the statutory auditors of Sarovar Ltd. for the FY 2021- 22. The company is engaged in the business of manufacture of water bottles. At the time of finalising the auditor's report, one of the audit team members asked CA Ajay, the engagement partner to advise as to how the auditor's responsibilities can be shown in an appendix to the auditor's report. Draft the auditor's responsibility paragraph so as to advise the audit team member.

#### SOLUTION

**Auditor's Responsibilities for the Audit of the Financial Statements** Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is included in appendix X of this auditor's report. This description, which is located at [indicate page number or other specific reference to the location of the description], forms part of our auditor's report.

#### Illustration 8-

Auditor's Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed company (registered under the Companies Act, 2013) using a fair presentation framework. The audit is not a group audit (i.e., SA 600 does not apply).
- The financial statements are prepared by management of the entity in accordance with the accounting Standards prescribed under section 133 of the Companies Act, 2013.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by ICAI together with the other relevant ethical requirements relating to the audit and the auditor refers to both.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570 (Revised).
- Key audit matters have been communicated in accordance with SA 701.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.



**Illustration 9-**

Super Duper Ltd. is a company engaged in the manufacture of office furniture. M/s Young Old & Associates are the statutory auditors of the company for the FY 2021-22. During the year under audit, the engagement partner CA Young noticed that the company has not bifurcated its loans into long term and short term. CA Young understands that such misstatement is not pervasive though the same is material. Explain the type of opinion that should be given by M/s Young Old & Associates in this case.

**SOLUTION-**

M/s Young Old & Associates should give a qualified opinion as the effect of the misstatement on account of the non-bifurcation of loans into long term and short-term loans, is material but not pervasive.

**Illustration 10-**

M/s Taj Raj & Associates are the statutory auditors of Porex Ltd. engaged in the manufacture of premium watches, for the FY 2021-22. During the course of audit, CA Taj, the engagement partner found that the stocks and debtors of the company constituting about 80% of the total assets of the company are not realisable. Further, the cashier of the company has committed a fraud during the year under audit. Both the facts are not reflected in the financial statements for the year ending 31.03.2022. Accordingly, CA Taj is of the view that the impact of both the situations on the financial statements is material and pervasive and thus, the financial statements represent a distorted view of the state of affairs of the company. Explain the reporting requirements of CA Taj.

**SOLUTION-**

The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements. In the case Porex Ltd., CA Taj found that the stocks and debtors of the company constituting about 80% of the total assets of the company are not realisable. Further, the cashier of the company has committed a fraud during the year under audit. Such situations are not reflected in the financial statements of the company despite having a material and pervasive impact on the financial statements. As such, CA Taj should give an adverse opinion. Further, CA Taj should also consider the reporting responsibilities under CARO 2020 and section 143(12) of the Companies Act, 2013.

**Illustration 11-**

Delightful Ltd. is a company engaged in the production of smiley balls. During the FY 2021-22 the company transferred its accounts to computerised system (SAP) from manual system of accounts. Since the employees of the company were not well versed with the SAP system, there were many errors in the accounting during the transition period. As such the statutory auditors of the company were not able to extract correct data and reports from the system. Such data was not available manually also. Further, the employees and the management of the company were not supportive in providing the requisite information to the audit team. Explain the kind of audit report that the statutory auditor of the company should issue in this case.

**SOLUTION-**

When the statutory auditor of the company is unable to obtain sufficient and appropriate audit evidence, the auditor should give disclaimer of opinion as per SA 705. In the present case, the statutory auditor of the company is unable to extract correct data and reports from the SAP system for conduct of audit. Also, such data and reports are not available manually. As such, the statutory auditor of Delightful Ltd. should give a disclaimer of opinion.



**Illustration 6-**

M/s Daisy & Associates are the statutory auditors of Zebra Ltd. for the FY 2021-22. CA Daisy, the engagement partner wants to verify the cash in hand as on 31.03.2022. The cash balance of the company as on 31.03.2022 is ` 1,00,000/- and the turnover of the company for the year is ` 6 crores. The management of the company informs CA Daisy that such cash verification is not possible as the cashier is on leave for his marriage and no other employee of the company is available as all are busy in year ending activities. Explain the relevant provisions to deal with such a situation.

**SOLUTION**

If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers is likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation. In the present case CA Daisy, the statutory auditor is unable to verify the cash in hand of Zebra Ltd. as on 31.03.2022. The same is due to a limitation imposed by the management of Zebra Ltd. which is due to the non-availability of the cashier. In such situation, CA Daisy should perform alternate procedures to verify the cash on hand of the company. Further, CA Daisy should consider the impact on the auditor's report and may consider issuing a qualified opinion in this case.

**Illustration 8-**

M/s Sun Moon & Associates are the statutory auditors of Venus Ltd. for the FY 2021-22. Owing to the pervasive nature of material misstatements in the financial statements of the company, CA Moon, the engagement partner decided to give an adverse opinion. Explain the responsibility of CA Moon with respect to communication with those charged with governance.

**SOLUTION**

CA Moon, being the statutory auditor of Venus Ltd. should communicate with those charged with governance about the circumstances that led to the expected modification i.e., an adverse opinion. Further the wording of such modification also needs to be discussed.

**Illustration 6-**

Lomaxe Ltd. is a company engaged in the business of manufacture of candles. CA Kamalnath is the statutory auditor of the company for the FY 2021-22. During the year under audit, there was a fire in the company's factory as a result of which, some of the company's plant and machinery was destroyed. The same was disclosed by the company in the notes to accounts annexed to the financial statements for the year ending 31.03.2022. CA Kamalnath decided to communicate this matter in the auditor's report as he is of the view that the matter is of such importance that it is fundamental to the user's understanding of the financial statements. Help CA Kamalnath to deal with this situation in the auditor's report.

**SOLUTION**

In the present case there is a need to add Emphasis on Matter Paragraph in the Auditor's Report. The draft of the same is as under:  
Emphasis of Matter – Effects of Fire in Company's Factory We draw attention to Note Y of the financial statements, which describes the effects of a fire in the Company's factory. Our opinion is not modified in respect of this matter.



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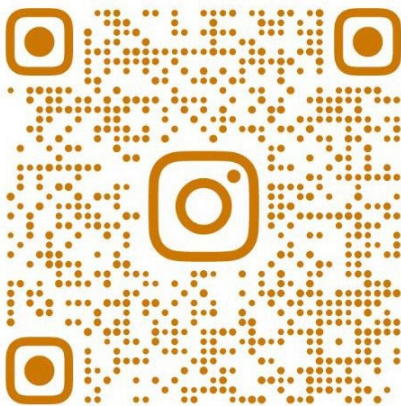


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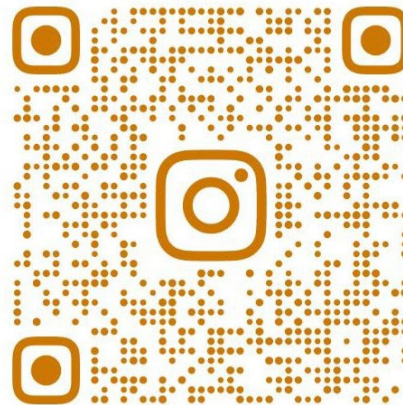


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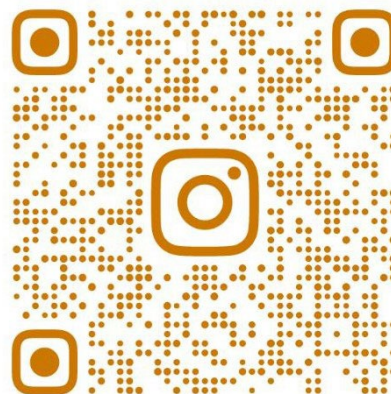
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