



# Audit Report

**“Revised Audit Report  
Under Companies Act”**

**CA Prashant Daftary**

**7<sup>st</sup> September 2019**

**CTC Nashik**



Audit report &  
recent  
amendments

## Need for change

Focus on  
opinion

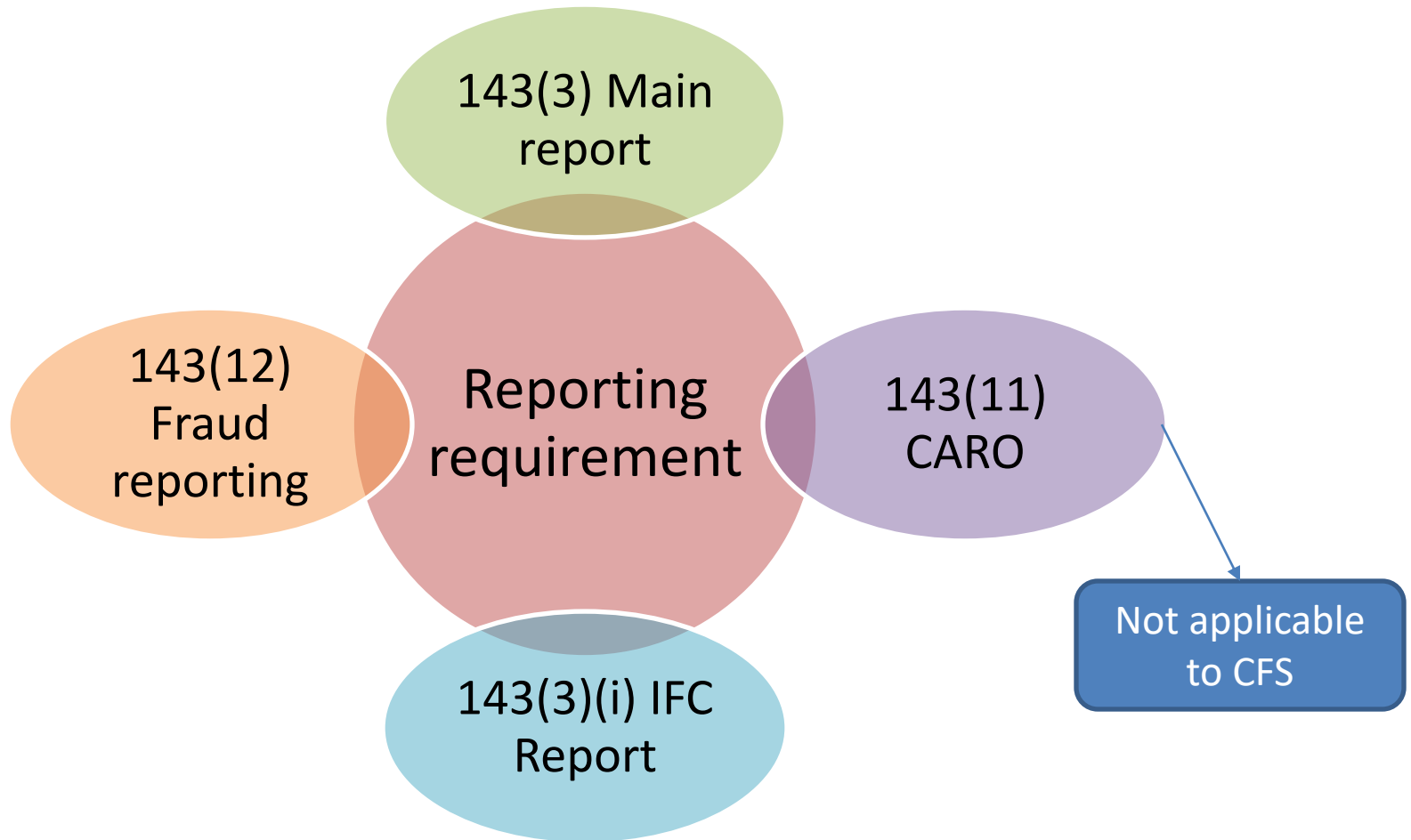
Clarity on  
auditors &  
management  
responsibility

Other  
information in  
annual report

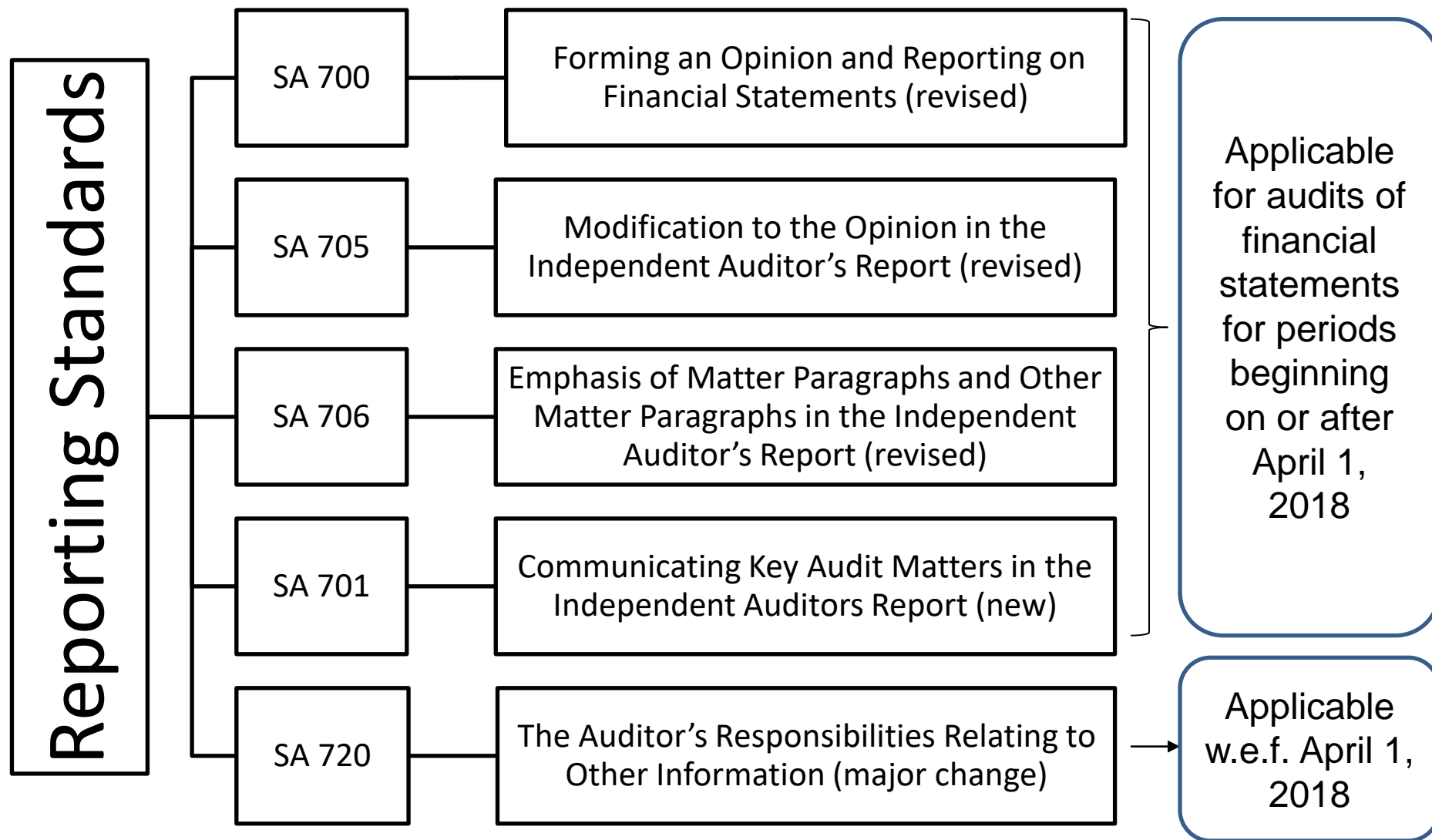
Reducing  
attention span

Going concern

# Overview of reporting obligations



# Revised reporting standards and amendment summary



Amendment to SA 570 'Going Concern' is applicable for reporting from the year ended March 31, 2018



# **SA 700 (revised) 'Forming an opinion & reporting on financial statements'**

# Elements of auditor's report – existing and revised

Existing	Revised
<ul style="list-style-type: none"> <li>Title</li> <li>Addressee</li> <li>Introductory Paragraph</li> <li>Managements responsibility for the financial statements</li> <li>Auditor's responsibility</li> <li>Auditor's opinion</li> <li>Other reporting responsibilities</li> <li>Signature of the auditor</li> <li>Date of the auditor's report</li> <li>Place of signature</li> </ul>	<ul style="list-style-type: none"> <li>Title *</li> <li>Addressee *</li> <li>Auditor's opinion</li> <li>Basis for opinion</li> <li>Going concern (if required)</li> <li>Key audit matters</li> <li>Other information</li> <li>Responsibilities of management</li> <li>Auditor's responsibilities for the audit of the financial statements</li> <li>Other reporting responsibilities *</li> <li>Signature of the auditor *</li> <li>Place of signature *</li> <li>Date of the auditor's report *</li> </ul>

\* No change or very minor changes

# Auditors opinion & Basis of opinion

- Auditor's opinion
  - Contents of erstwhile introductory paragraph have been merged in auditor's opinion paragraph
- Basis for opinion [new element] – comprises of following 4 reporting requirements

Reporting requirement	Our comments
Audit was conducted in accordance with SAs	Earlier forming part of auditor's responsibilities paragraph
Reference to the section of the auditor's report that describes the auditor's responsibilities under the SAs	-
<ul style="list-style-type: none"><li>• Auditor is independent of the entity in accordance with the relevant ethical requirements</li><li>• Fulfilled the auditor's other ethical responsibilities</li><li>• Reference to the Code of Ethics issued by the ICAI</li></ul>	-
Audit evidence obtained by the auditor is sufficient and appropriate to provide basis for opinion	Earlier forming part of auditor's responsibilities paragraph



# Changes in management responsibility para

## Title

- Word 'management' removed from title
- Cosmetic change as existing SA 700 allowed to use the reference of those charged with governance (TCWG) instead of management

## New reporting requirements

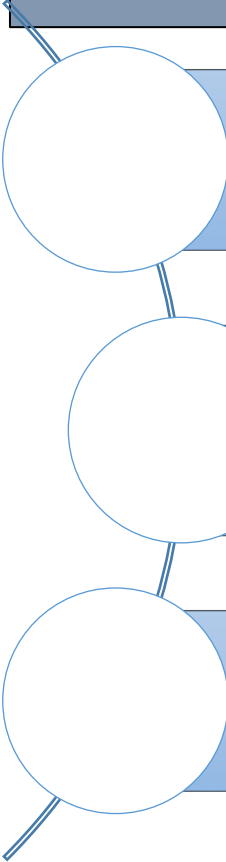
- Assessing the entity's ability to continue as a going concern
- Whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern along with an explanation

## Identification of those responsible for the oversight of financial reporting process

- Only when such parties are different from those who fulfil the responsibilities of preparing FS and assessment of entity as going concern
- Heading of such section shall also refer to "Those Charged with Governance" or such term as appropriate [Eg. CFS]

# Auditor's responsibilities for the audit of the financial statements

Additional reporting requirements which can either be reproduced within the body of auditor's report or Annexure to auditor's report or website link [these are in addition to other existing requirements. Eg. Reporting on internal controls]



Auditor exercises professional judgment & maintains professional skepticism throughout the audit

- Risk of not detecting a material misstatement resulting from fraud is higher than from error
- Fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

Conclusion on the appropriateness of management's use of the going concern basis of accounting

# Auditor's responsibilities for the audit of the financial statements (cont...)



Auditor's responsibilities in a group audit engagement when SA 600 applies

Auditor has communicated with TCWG on matters such as planned scope and timing of audit, significant audit findings including any deficiencies in internal control

Auditor provides TCWG with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicating on matters affecting it

Where SA 701 is applicable, determination of key audit matters

# Practical issues & Special cases

Listed Vs unlisted companies

- KAM para to be removed for unlisted companies unless voluntarily reporting on KAM

LLP, Partnership firms

- Other information para not applicable
- Separate format for non-corporate entities provided in standard

Tax audit report, IFC report

- Relevant modifications in IFC and tax audit reports as regards management responsibility and auditors responsibility

## Practical issues & Special cases (cont..)

IFC not applicable

- Auditors responsibility on reporting on internal controls to be modified

Audit under special  
purpose frame  
work

- Format specified in revised SA 700 to be applied to the extent possible

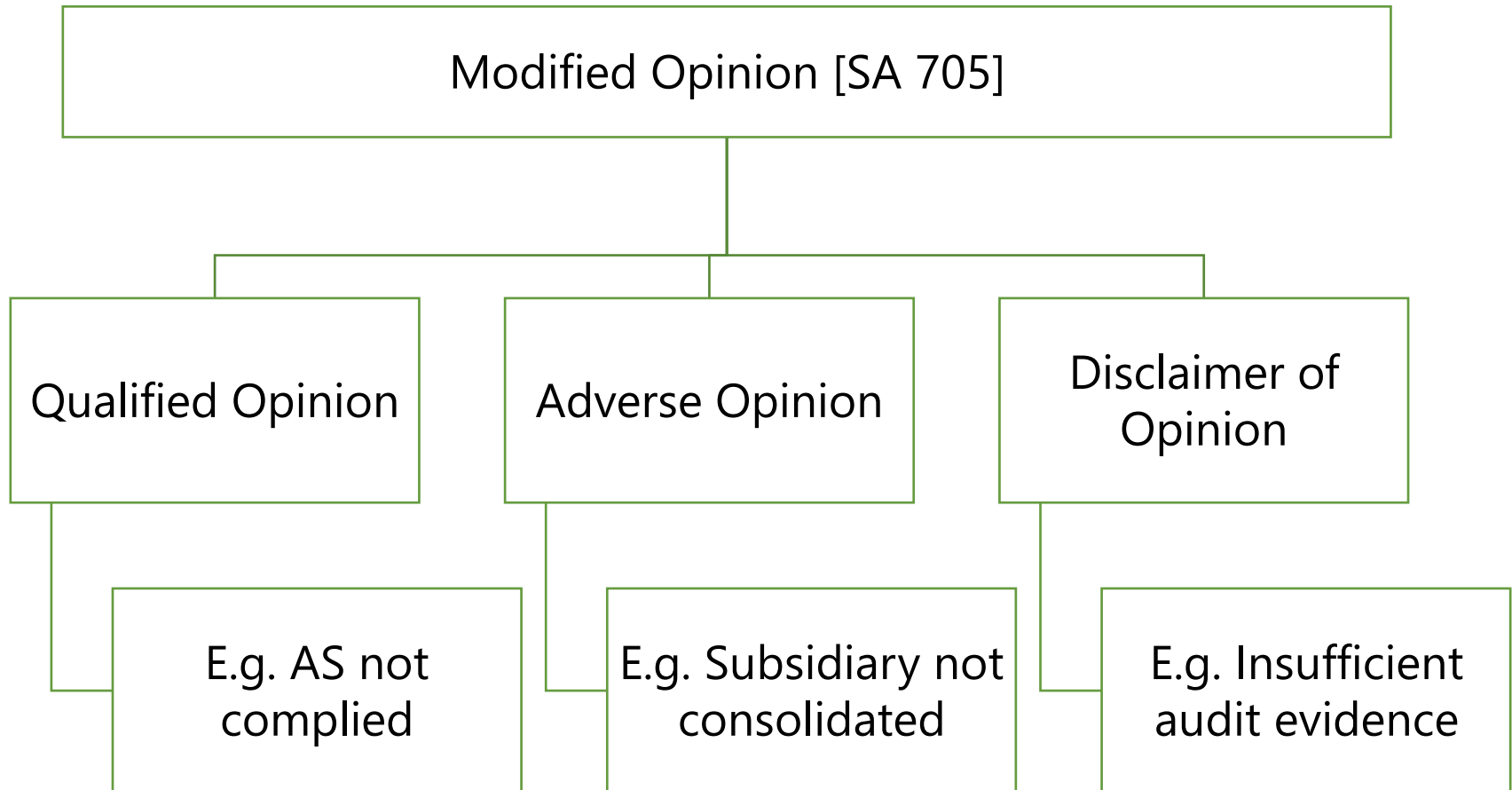
Additional  
reporting u/s 197

- In main audit report also, reporting on compliance u/s 197 (managerial remuneration) is added



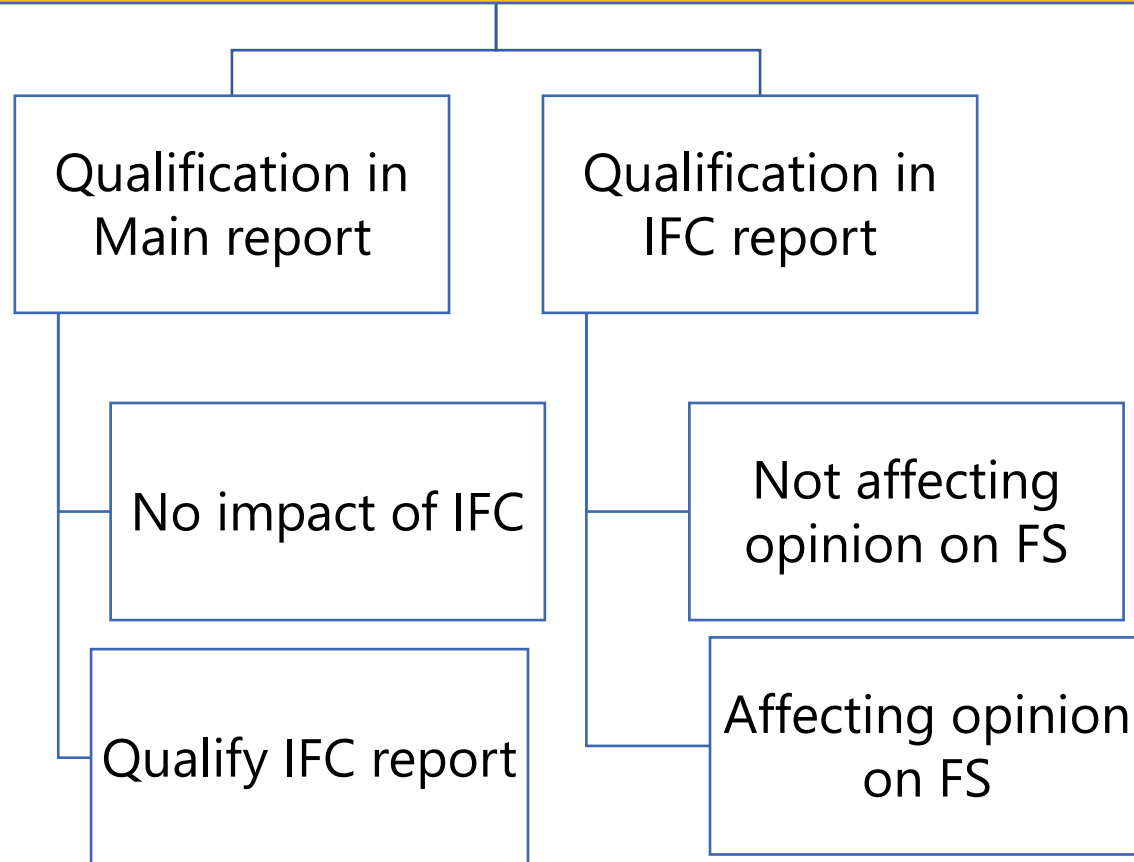
# **SA 705 (Revised) 'Modification to the opinion in the independent audit report'**

# Types of modified opinion



# Impact of qualification in Main report & IFC report

## Qualification





# Types of Modified Opinion

Nature of Matter Giving Rise to the Modification	Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements	
	Material but Not Pervasive	Material and Pervasive
<ul style="list-style-type: none"> <li>Financial statements are materially misstated</li> </ul>	<ul style="list-style-type: none"> <li>Qualified opinion</li> </ul>	<ul style="list-style-type: none"> <li>Adverse opinion</li> </ul>
<ul style="list-style-type: none"> <li>Inability to obtain sufficient appropriate audit evidence</li> </ul>	<ul style="list-style-type: none"> <li>Qualified opinion</li> </ul>	<ul style="list-style-type: none"> <li>Disclaimer of opinion</li> </ul>

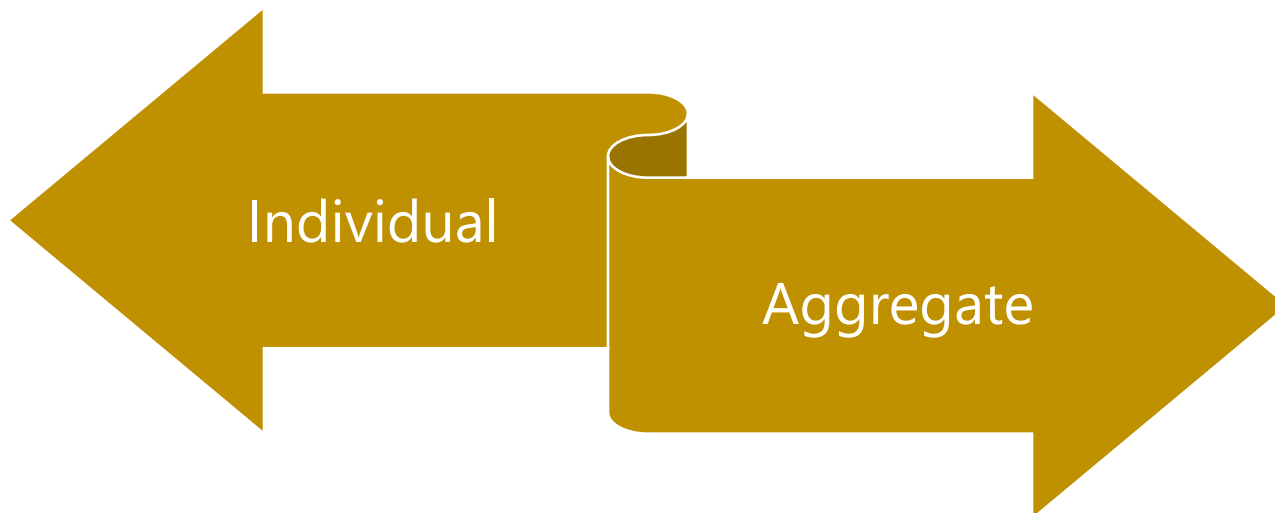
FS having EOM / Modification are closely looked by stakeholders

# Guidance for modified opinion in audit report

Particulars	Whether Qualified	Use of Expression
<u>Limitations on scope of audit</u> <ul style="list-style-type: none"> <li>• Material but not fundamental</li> <li>• Fundamental</li> </ul>	Yes Yes	'Except for' Disclaimer of Opinion
<u>Disagreements:</u> <ul style="list-style-type: none"> <li>• Material but not fundamental</li> <li>• Fundamental</li> </ul>	Yes Yes	'Except for' Adverse Opinion

# Impact of qualification in audit report

- If financial statements are subject matter of qualification, the effect of the qualification on the financial Statements (unless impracticable) individually and also in aggregate.
  - Example : - If inventory is overstated- effects on inventory, PAT and reserves to be given



## Consistency in reporting

- Opinion paragraph should give reference of modification para i.e. "except for the possible effects of the matter(s) ..." Similarly multiple reference to one comment in the report may be necessary e.g. AS compliance and books, Directors declaration and information and explanation received


# Major changes as compared to old SA 705

- Consequential changes have been made in accordance with SA 700 (Revised) regarding language used for auditor's opinion and basis for opinion paragraphs
- When the auditor "disclaims" an opinion on the financial statements, auditor's report not to include "Key Audit Matters" section
  - Exception : "Key Audit Matters" required by law or regulation



# ICAI announcement on Reporting on Components-consolidated audit reports

Component	Component is Material to financial statement (Yes / No)	Disclosure in Principal Auditor's Report
Unaudited	No	Optional disclosure [if reported, 'Other Matters']
Audited by another auditor	No	Optional disclosure [if disclosed, 'Other Matters']
Audited by another auditor	Yes	Disclosure to be made in 'Other Matters'
Unaudited	Yes	Report to be modified



# **SA 706 (revised) 'Emphasis of matter & other matter paragraph'**

# Definitions

## Emphasis of matter

- Refers to a matter appropriately addressed or disclosed in FS
- Fundamental to users understanding of FS

## Other matters

- Other than matters disclosed in FS
- Which is relevant to users understanding of the FS



# EOM and Other Matters

## EOM

- Uncertainty as regards future litigation
- Significant subsequent event between FS date & date of audit report
- Early application of new accounting standard which has material impact
- A major catastrophe that has or continues to have a significant impact on financial position

## Other Matters

- Change in auditor - previous year's figures
- Unaudited accounts of group entities in CFS
- Appointment of auditor post year end

# Emphasis of matter is not a substitute for .....

Qualification

Disclosure in FS

Reporting under SA 570 –Going Concern

# Placement of EOM para

Context	Placement of EOM paragraph
When EOM relates to applicable financial framework	Immediately following the Basis of Opinion section
When KAM is presented	Directly before or after the Key Audit Matters section based on relative significance of the information in EOM paragraph



The auditor may also add further context to the heading “Emphasis of Matter”, such as “Emphasis of Matter – Subsequent Event”, to differentiate the Emphasis of Matter paragraph from the individual matters described in the Key Audit Matters section.

# Placement of other matter paragraph

- When a Key Audit Matters section is presented - *the auditor may add further context to the heading “Other Matter”, such as “Other Matter – Scope of the Audit”, to differentiate the Other Matter paragraph from the individual matters described in the Key Audit Matters section.* [?]
- When an Other Matter paragraph is included to draw users’ attention to a matter relating to Other Reporting Responsibilities - *the paragraph may be included in the Report on Other Legal and Regulatory Requirements section.* [?]
- When relevant to all the auditor’s responsibilities or users’ understanding of the auditor’s report - *the Other Matter paragraph may be included as a separate section following the Report on the Audit of the Financial Statements and the Report on Other Legal and Regulatory Requirements*

# Some typical questions

- Reporting on two sets of financial statements prepared by a entity under different framework by the same auditor

Use other matter paragraph to draw users attention that another set of financial statement has been prepared by the same entity in accordance with another framework and auditor has issued a report on the same

- Restriction on use or distribution

Since the auditor's report is intended for specific users, the auditor may consider it necessary in the circumstances to include an Other Matter paragraph, stating that the auditor's report is intended solely for the intended users, and should not be distributed to or used by other parties.

# **SA 570 (revised) 'Going Concern'**

# Going concern reporting

Specific mention  
in auditors  
responsibility

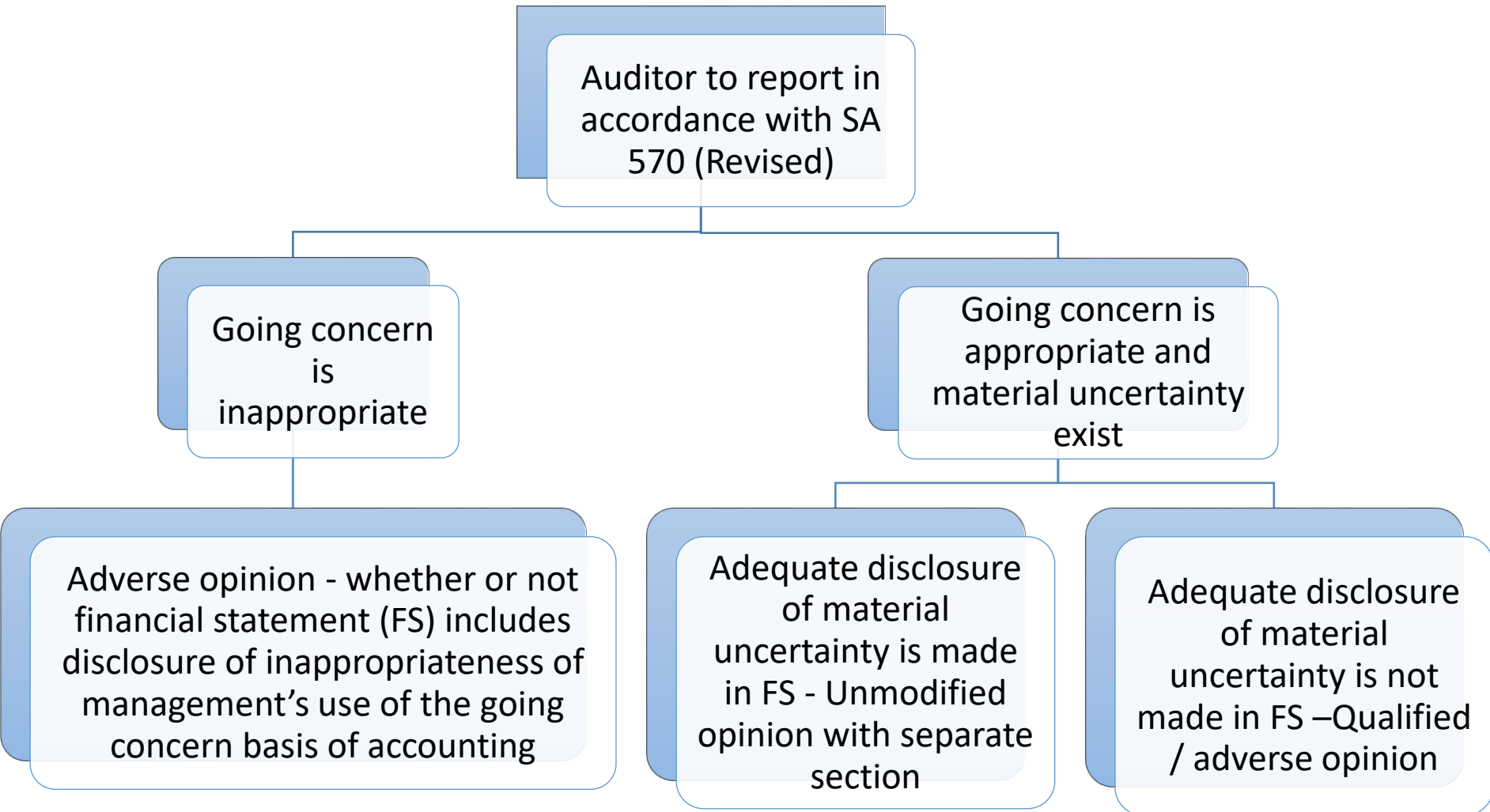
Specific reporting  
requirement

Adverse impact  
on functioning –  
section 143(3)(h)

Additional focus  
required on  
going concern

Need for formal  
documentation

# Going concern reporting





# Key aspects to be considered for going concern reporting

## What is auditors role

- evaluate managements assessment of going concern

## Over what period is going concern assessed

- Atleast 12 months from the date of FS

# Key aspects to be considered for going concern reporting

## What audit evidence should be obtained

- Cash flow projections
- Based on situations – detailed business plans
- Support to entity for obtaining new funding upon maturity of current loans
- Comfort letter from parent company and shareholders

## EOM Vs Reporting under SA 520

Is Emphasis of Matter Paragraph (EOM) also required to be given for the situation where the auditor is required to give Separate Paragraph on “Material Uncertainty Related to Going Concern” to highlight material uncertainty” as per SA 570 (Revised)?

As per pre-revised SA 570 (which was applicable till audits of F.Y. 2016-17) an Emphasis of Matter Paragraph (EOM, refer para 19) was required to be given in the situation given in case 2.1 as above in question 1. SA 570 (Revised) in such situation requires a separate paragraph ‘Material Uncertainty Related to Going Concern’ instead of EOM Paragraph.

Accordingly, in situations which warrant separate Paragraph on “Material Uncertainty Related to Going Concern” as per SA 570 (Revised), auditor is not required to give EOM paragraph.

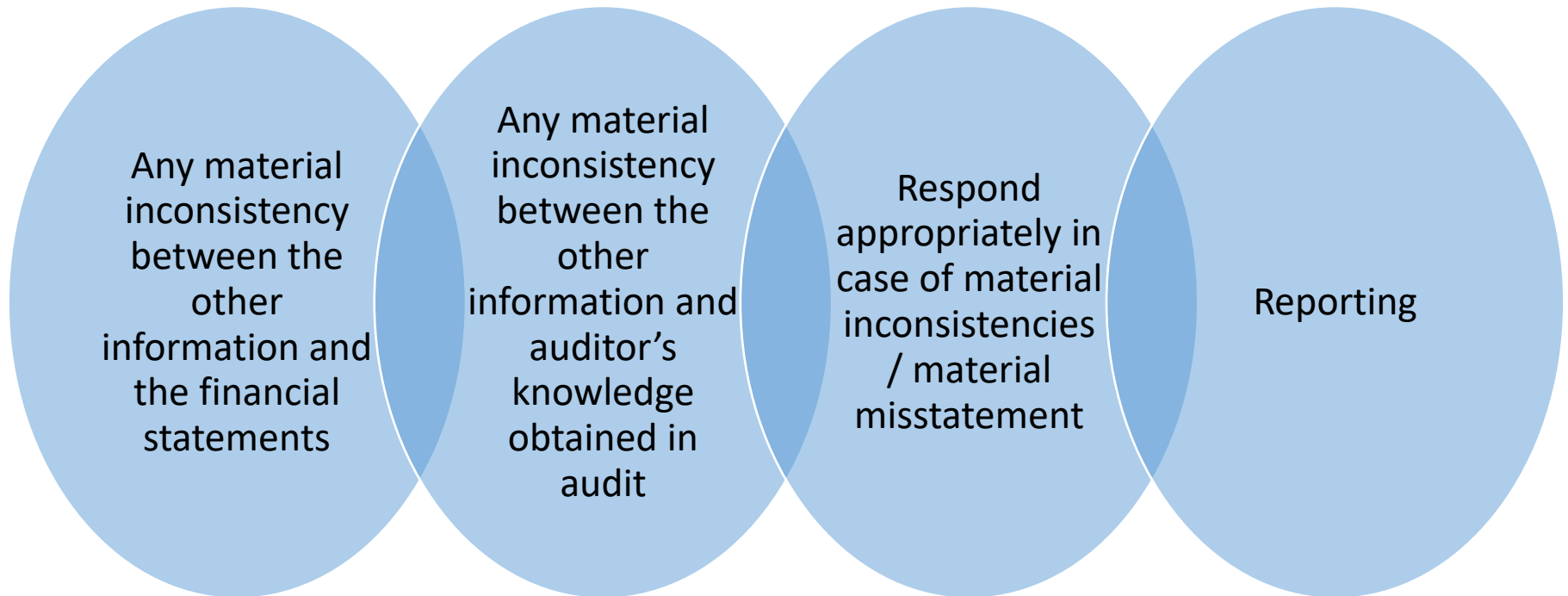


# **SA 720 (revised) 'Auditors Responsibility Relating to Other Information'**

# What changed ?

- Under new SA responsibility of auditor significantly increased
  - Responsibility now includes consideration of other information and reporting if there is any material mis-statement
- Auditors role would include
  - Comparing consistency between figures reported in financial statements and other information –example PAT figures in financial analysis Vs financial statements
- Auditor to consider consistency between details mentioned in other information with the information obtained during audit
- Earlier reporting was exception based under other matters paragraph as against separate paragraph to be included in the auditors report

# Objective



# Applicability of Reporting responsibility



## Applicable to

Listed as well as unlisted corporate entities

Audited annual financial statements.

## Not applicable to

Unlisted non-corporate entities

Interim financial results which are audited or subject to limited review

# What is other information

Management report, directors report

Management discussion analysis

Chairmen's speech

Corporate governance report

Financial highlights



# What is not other information under SA

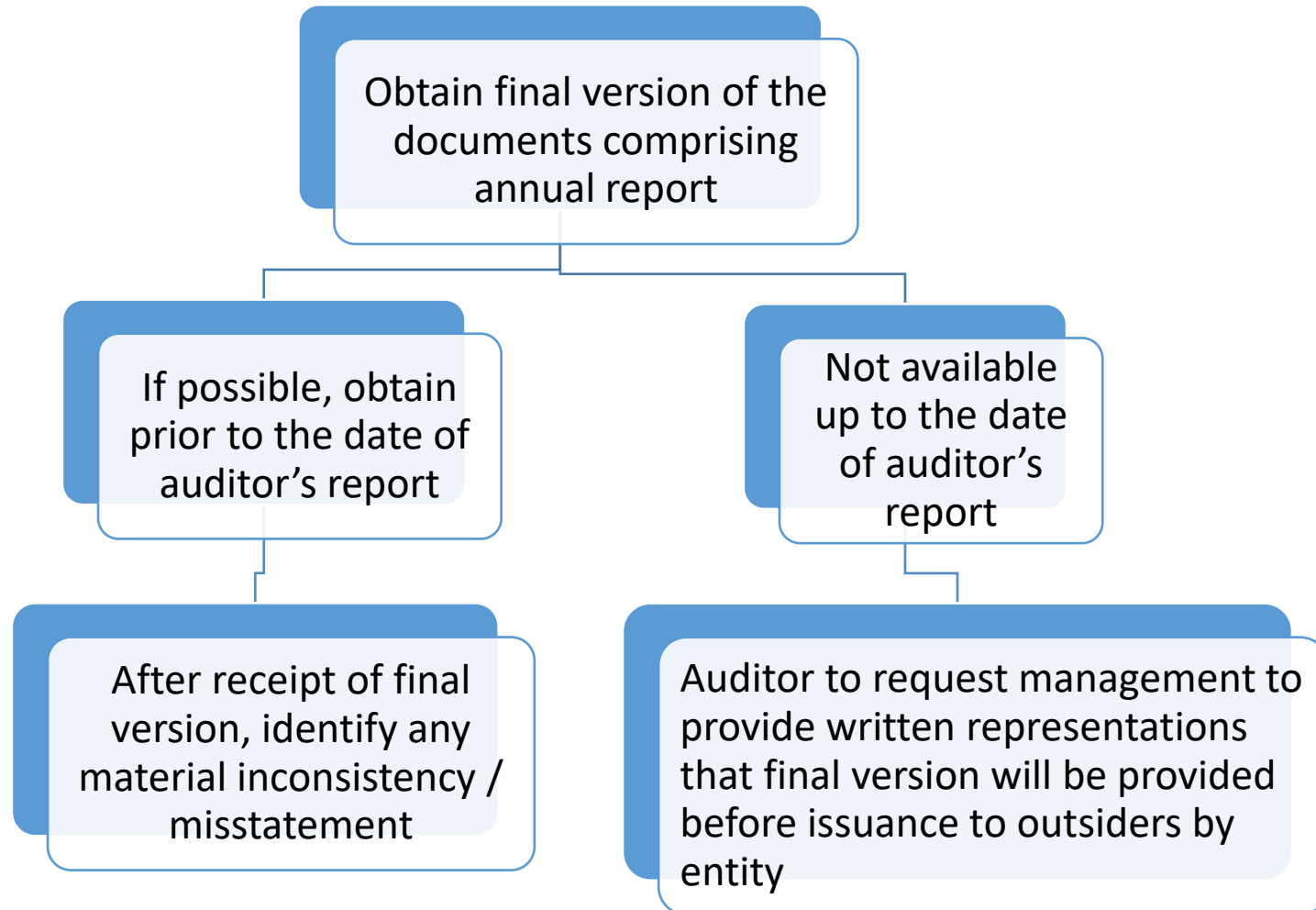
Separate industry reports ex-capital adequacy report, etc.

Corporate social responsibility reports

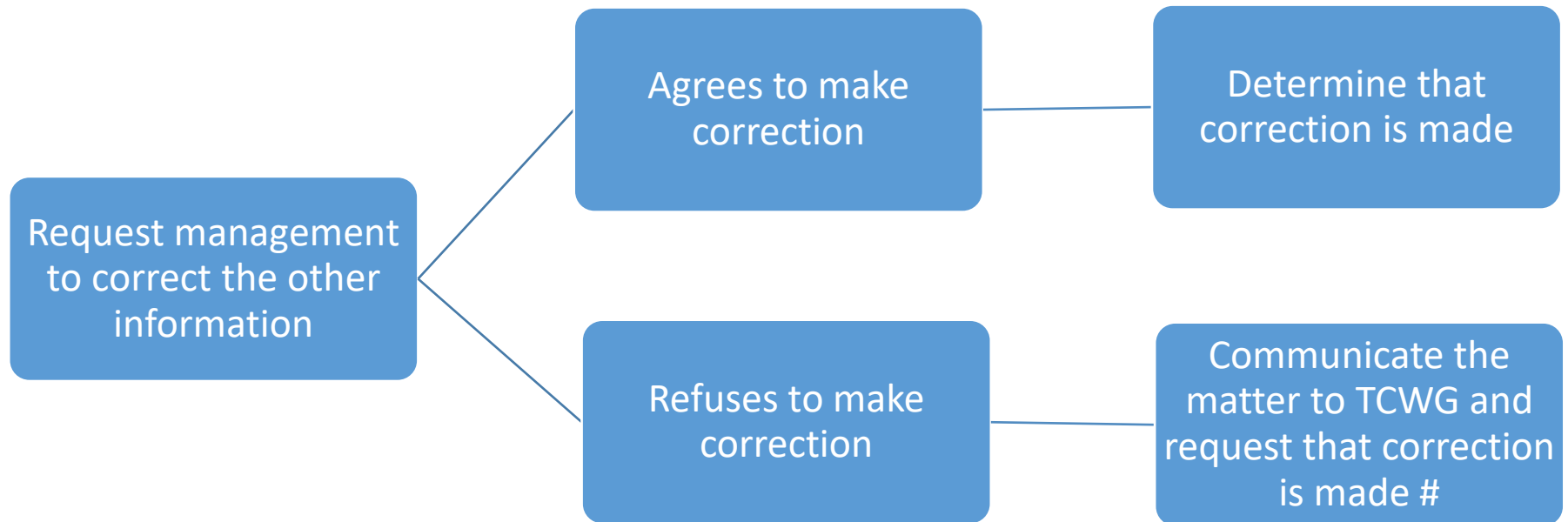
Sustainability reports

Product responsibility reports

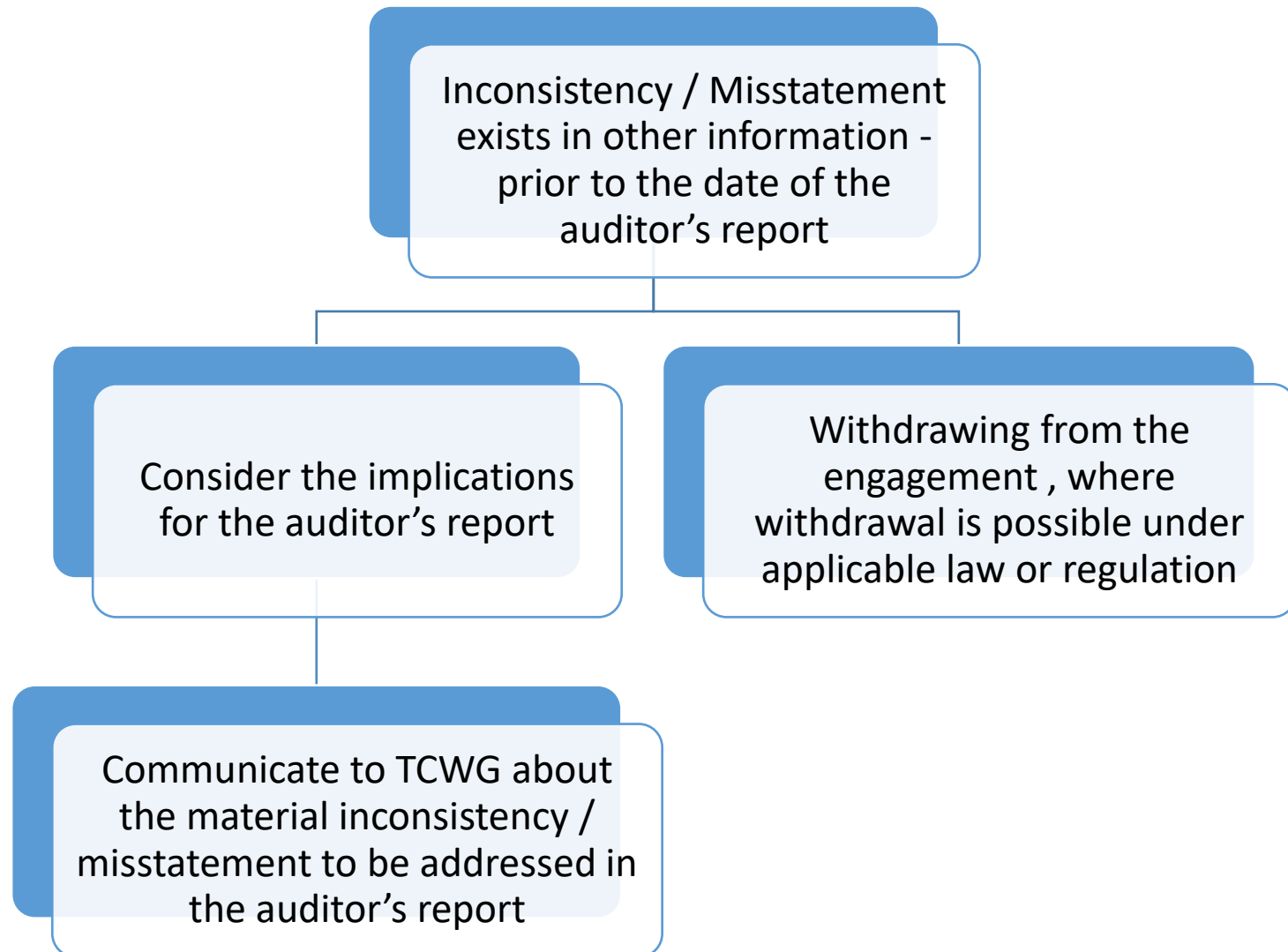
# Obtaining other information to identify any material inconsistency / misstatement



# Responding to material inconsistency / misstatement of the Other information



# Responding to material inconsistency / misstatement of the Other information (prior to date of auditor's report)



# Responding to material inconsistency / misstatement of the Other information (after the date of auditor's report)

## Corrected

- ☐ Determine that correction is made
- ☐ If the other information is already issued , the auditor may review the steps taken by management to communicate with those in receipt of other information

## Uncorrected

- ☐ Seek legal advice
- ☐ When permitted by law/regulation:
  - ✓ Provide new/ amended auditor's report
  - ✓ Addressing the matter in General meeting of shareholders
  - ✓ Communicating to regulator, if required by law
  - ✓ Consider the implication for engagement continuance

# Implication of Modified audit report on other information

Need to modification in the other information paragraph needs to be looked into in case of a modified information

The other information paragraph should draw a reference to the corresponding qualification since corresponding information may also be mis-stated

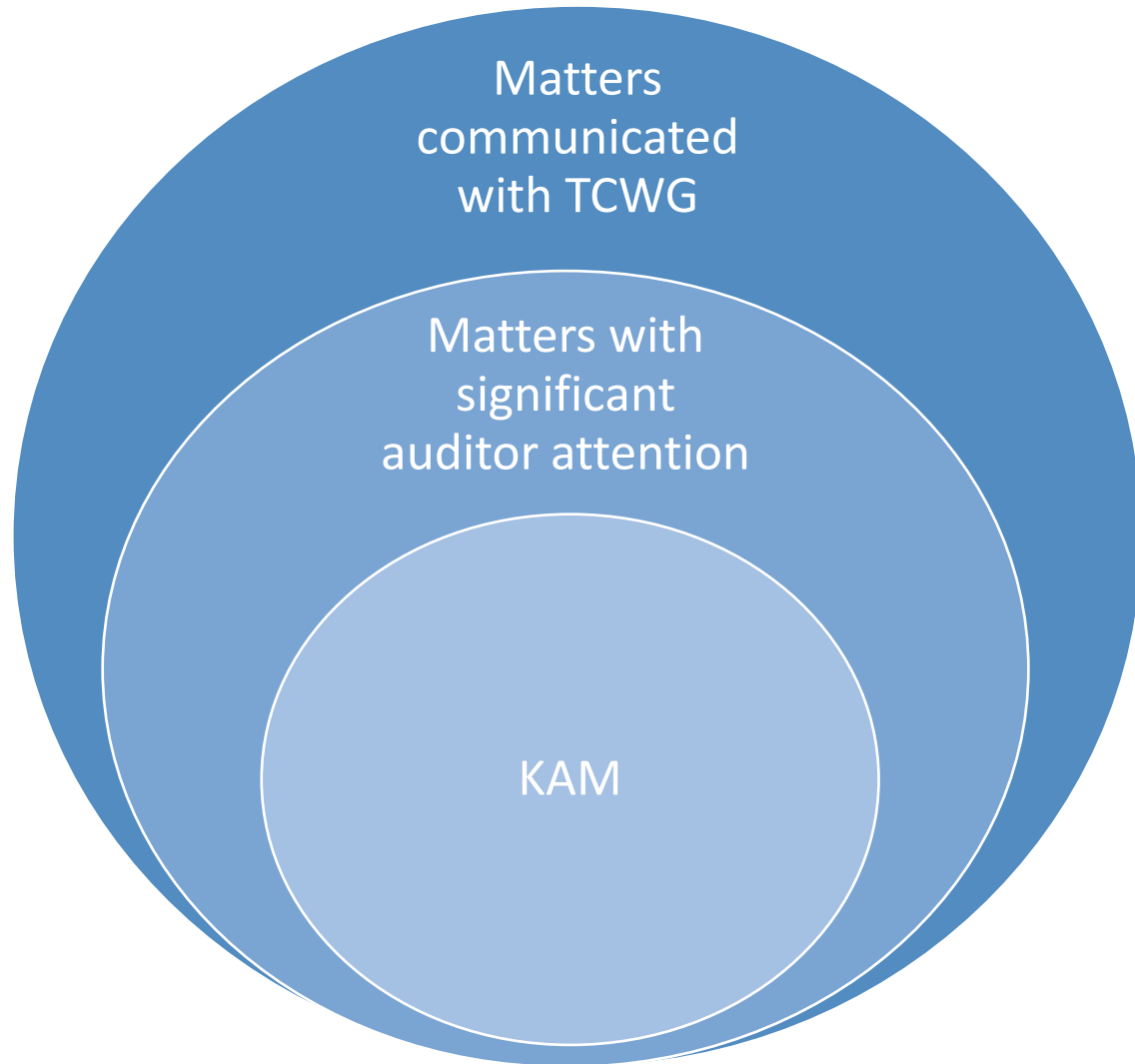


# **SA 701 (revised)**

## **'Communicating Key Audit Matters'**

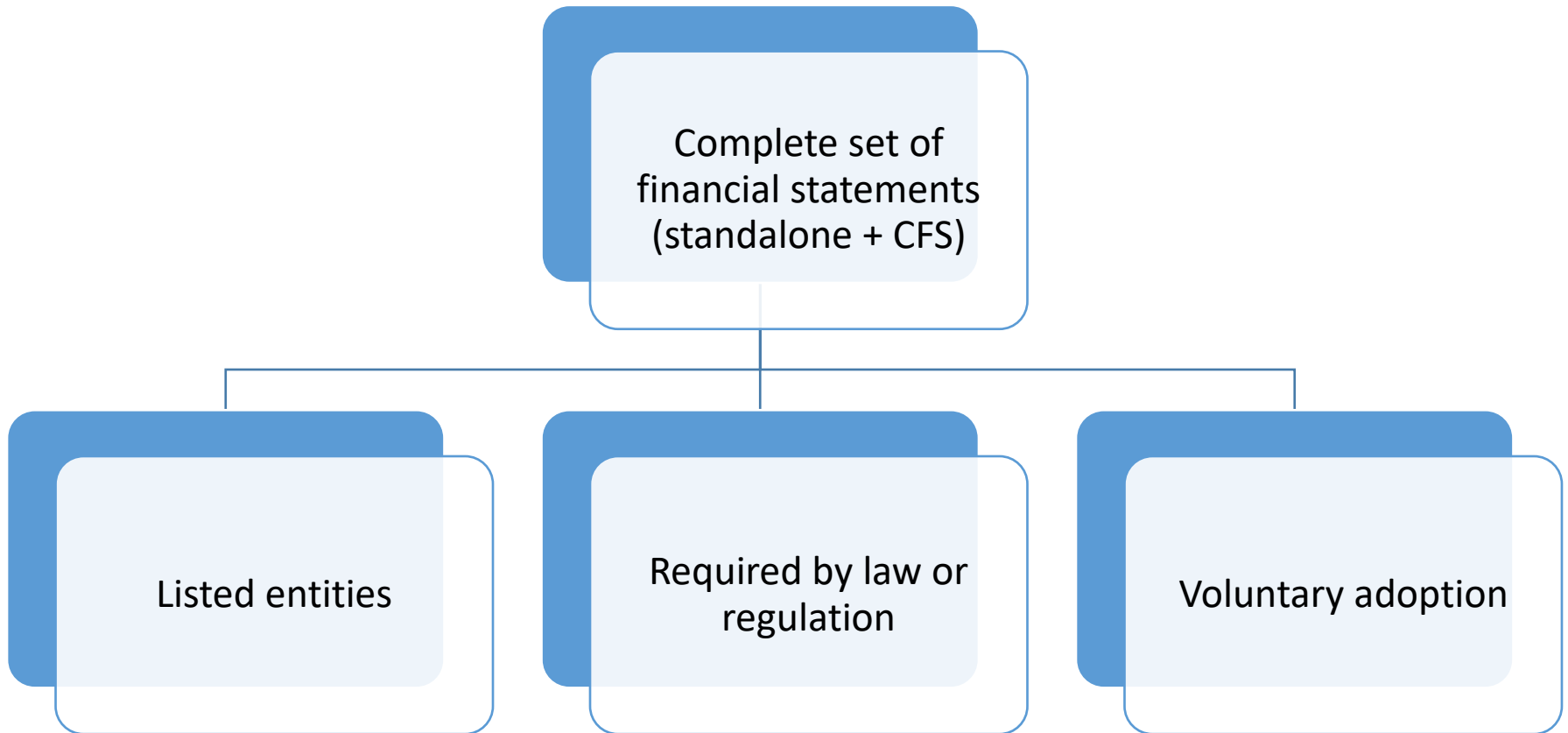
# What is Key Audit Matters (KAM)?

**KAM:** Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. KAM are selected from matters communicated with TCWG





# Applicability of KAM



# KAM in auditor's report is not substitute for

Disclosures in the  
financial statements

The auditor  
expressing a  
modified opinion

Reporting in  
accordance with SA  
570 –material  
uncertainty exists as  
regards entity's  
going concern

# Communication of KAM in auditor's report

Separate section in auditor's report



Introductory Paragraph



Appropriate subheading for each KAM



Description of each KAM – reference to related disclosure, if any, in FS



Why it is considered as KAM and how the matter is addressed in audit



Order of presentation of individual KAM

## Illustration 1

### Qualified opinion & KAM

- When matter giving rise to modified opinion in accordance with SA 705, such matters shall not be communicated in KAM section

#### Extract of Independent Auditor's Report

##### **Qualified Opinion**

##### **Basis of Qualified opinion**

##### **Key Audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. **In addition to the matter described in the Basis for Qualified Opinion section**, we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with SA 701.]

## Illustration 2

### Going Concern & KAM

- When material uncertainty exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern such matters shall not described in KAM section

#### Extract of Independent Auditor's Report

##### Opinion

##### Basis of opinion

##### Material Uncertainty Related to Going Concern

##### Key Audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. [In addition to the matter described in the Material Uncertainty Relating to Going Concern section](#), we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with SA 701.]

## Illustration 3

### KAM in other circumstances

- If there are no KAM to be communicated in auditor's report, the auditor shall include a statement to effect this in separate section.

### Extract of Independent Auditor's Report

Opinion

Basis of opinion

Key Audit matters

[Except for the matter described in the Basis for Qualified /Adverse Opinion section or Material Uncertainty Related to Going Concern section,] we have determined that there are no [other] key audit matters to communicate in our report.

# Tips - KAM reporting




Clarity in communication

Timely communication

Avoid copy and pasting from others

Balance between excessive reporting and reporting requirements



# **Practical Tips (including good practices) & Common mistakes to take care**



# Practical Tips - Inter-linkages & cross reporting



Reporting for director declaration not received

Impact of Qualification /EOM (Maintenance of books)

Going concern reporting - report on adverse impact?

Qualification in main report – IFC implication ?

# Good Practices

- The conclusive opinion of the IFC can also be stated in the main audit report along with the reference of IFC Annexure as follows:
  - “Our report expresses an unmodified opinion on the adequacy and operating effectiveness of the Company’s internal financial controls over financial reporting.”
- Reference of EOM paragraph of last year given in the current period’s audit report:
  - “Further the emphasis of matter mentioned in paras\_\_\_ were also reported in our earlier audit report dated 30<sup>th</sup> June 2011”

## Good Practices (cont...)

- Rotation of engagement partners to be done at periodic intervals before the stipulated time period of 7 years under SQC 1.
- Giving cross references of relevant notes forming part of notes to financial statements in case of reporting requirement for the impact of pending litigation on its financial position.
- It is preferred to give note reference for matters covered under EOM rather than reproducing the entire note in audit report.

# Exceptional reporting based on inquiry 143 (1)

Not  
focused  
many  
times

Loans & advances given whether prejudicial to Co.

Merely book entries which are prejudicial to Co.

Investments sold less than cost price

Whether loans & advances shown as deposits

Whether personal expenses shown as revenue

Whether cash received for shares allotted

*Auditors of a holding company shall have the right to access records of the subsidiary companies in so far as it relates to audit of CFS.*

# Reporting under section 143 (3) Auditor's Report

- a) Whether auditor has sought and obtained all information & explanation and if not, details with the effect of such information on the financial statements is required to be given
- b) Whether proper books of account have been kept by the company / branch (as per Rule 3(5) of Companies (Accounts) Rules, 2014 backup should be maintained in India)
- c) Whether branch audit report received and how it has been dealt with
- d) Whether balance sheet and profit and loss account dealt with in the report are in agreement with books of account and returns
- e) Whether financial statements comply with the accounting standards

# Reporting under section 143 (3) Auditor's Report

f) The observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company

— GN issued by ICAI

g) Whether directors is disqualified from being appointed as director u/s 164(2)

h) Any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith

— GN issued by ICAI

# Reporting under section 143 (3) Auditor's Report

- i) Whether company has adequate internal financial controls in place and operating effectiveness of such controls
  - Mandatory from year 15-16 onwards
  - As per GN separate report to be issued for IFC and reporting is only over financial reporting
- j) Others matters prescribed
  - Whether company has disclosed effect of pending litigation on financial position
  - Whether company has made provision for foreseeable losses on long term contract, including derivative contracts
  - Whether any delay in depositing money in IEPF

# Common mistakes observed by FRRB

## Observations identified by FRRB

- Auditor has signed the Auditor's report prior to the date when the financial statements were signed and authenticated by the director of the company.
- Auditor has mentioned his / her membership number with "F" prefix (i.e. represent fellow member) in Auditor's Report.
- Opening paragraphs of the Auditors Report states to have "examined the attached Balance Sheet."

## Requirements

- SA 700 (Para 26): Since the Auditor's responsibility is to report on the Financial Statements as prepared and presented by the management, the auditor should not date the report earlier than that the date on which the Financial Statements are signed or approved by management.
- Institute does not give such prefix
- Auditor should have used the



# Common mistakes (contd..)

## Observations identified by FRRB

- Cash flow statement not covered for reporting  
In the Auditor's Reports, no reference was made to the Cash Flow Statement in opening paragraph & opinion paragraph
- Qualifications are not quantified

## Requirements

- SA 700 (Para 9): The auditor's report should identify the cash flow statement as a part of financial statements and further, also express an opinion on the cash flow statement audited.
- SA 700: To give reasons for qualification, should also report the quantitative impact of such on the financial statements of each, individually as well as their aggregate. If impracticable – then state it.



*Thank You*

CA Prashant Daftary

[Prashant.daftary@nashah.com](mailto:Prashant.daftary@nashah.com)