CHAPTER-04

16-05-24

AUDIT CONCLUSION AND REPORTING

SA700 : Forming an opinion & Reporting on audit of Financial statements.
SA701 : communicating key audit matters in Independent audit report
SA 705 : Modification to opinion in IAR
SA 706 : Emphasis of matter & other matters paragraph.
SA 710 : comparitive information → corresponding figures
→ comparative FS
SA 510 : Initial audit engagment — opening balance
SA 560 : subsquent Event
SA 580 : written representation
SA 260 : communicating with TCWG
Sec. 143(1) (3) (11) → Reporting under CA, 2013.

How to form an opinion?

whether auditor obtained sufficient audit evidence? (SAAE)

Yes ← - - - - - - follow this flow

Yes → Whether there are uncorrected material mistatements

- NO → unmodified (or) clean (or) positive (or) unqualified → AR — CFW : FS = T&C ✓ (or) FPFW : FS = T&F ✓
- Yes → Modified opinion → Negative → whether the impact is pervasive (huge)
  - NO → Qaulified opinion → AR → FS = T&F ✓ execp ___
  - Yes → Adverse opinion → AR → FS = T&F X

NO → Perform Add/Alternative procedure and evalute availability of SAAC

- Yes (follow this flow)
- NO → whether thers a possibility of material mistatement
  - NO → UMO → AR = FS → T&F ✓
  - Yes → Evalute whether the possible impact would be pervasive
    - Yes → Evalute whether
    - NO → QO → AR = FS - T&F ✓

Basis for qualified opinion

Reasons "------"
↓
Basis for adverse opinion

Except for possible effect of "------"

If withdrawal is Practically & legally Not possible
↓
Disclaimer of opinion
AR = could not form an opinion.

*If auditor withdraw's → he shall meet all the contractual & legal obligations.

SAAE	MM/PMM	Pervasive	Opinion
✓	✗	NA	UMO (unmodified)
✓	✓	✗	QO (Qualified)
✓	✓	✓	AO (Adverse)
✗	✗	NA	UMO (unmodified)
✗	✓	✗	QO (Qualified).
✗	✓	✓	Withdrawl ✗ Disclaimer of opinion.

Factors to be considered in forming an opinion:

1) Availability of SAAE
2) Existence of UCMM/possibility of MM
3) pervasiveness of the UCMM/PMM
4) Evaluations → F
→ A✓
→ E✓

Definition of pervasive:

A term used in the context of misstatement, to describe the effects on FS of MM or the possible effects on the FS of MM, if any that are undetected due to an inability to obtain sufficient appropriate evidence pervasive effect on the FS are those that, in the auditor's Judgement :

(i) Are not confined to specific elements, accounts or items of FS ;
(ii) If so confined, represent or could represent a substantial proportion of the FS; or
(iii) In relation to disclourse, are fundamental to users' understanding of financial statements.

Format & content of Auditor's Report

① Tittle : Independent auditors Report — SFS / CFS / BFS

② Address : Person to whom the report is intended to be provided → sometimes specified by statute
Eg: Memebers of company → Non Govt co
· C&AG → Govt co
Govt Body corporate → Presedent | Governer etc.,

③ Opinion para | Qualified / Adverse / Disclaimer of opinion } = Heading

1) Fact that audit is conducted
2) Identifying the entity being audited
3) Date & period & FY for which audit is carried on/conducted
4) Inclusion in FS
5) Wether the FS present T&F view require by AFRFw

④ Basis for opinion:

1) Audit is conducted in accordence with SAs.
2) State that auditor shall fullfill various responsibilities that are presented in a separate section.
3) State that the auditor is indepent of entity & met all the ethical

requirements imposed by the statute.

4) State that audit opinion is formed by only on the basis of SAAE.

5) Reasons for modified opinion if any.

(5) Material uncertainities about going concern → SA570.

★(6) Key Audit Matters → SA 701

(7) Emphasis of matters → Refer

(8) Other matter paragraph → Refer SA 706.

★(9) Responsibility for FS → MGMT
→ TCWG, if exists

1) preparation of FS according with applicable financial reporting frame work.

2) Design implemantation & Maintainance of internal control:

to reduce → Frauds
→ Errors

3) Assessment of appropriate of going concern assumption.

4) TCWG is responsible for over seeing MGMT's work if exists

(10) Responsibility of auditor → workbook [Manner of presentation]

↓

- Within the body of all
- As on Appendix
  ↓
  Describe the location within body of Audit reporting.
- Reference to a web-site of an appropriate authority where Audit report is Published

(11) Reporting on other legal & regulatory requirements.

Auditor shall be required to report on the other legal requirements that may or may not be in confirmity with reporting under SAs.

↓

If reporting under SAs & legal requirements are matching
↓
Auditor shall only report

↓

If reporting under legal req are additional to report under SAs.
↓

as required by relevent heading of SAs.

Audit shall on
- Requirments of SAs under the heading → Report on audit of FS
- Additional reporting requirments of the relavent Statute under → Report on other legal & requriments. Ex: C&AG & CARO.

(12) Signature → Engagment partner → Firm name + Reg. NO / personal name + Reg NO.
↓
141(2) → P+CA+P+I

(13) Place : Location where audit report signed.

(14) Date : AR date shall be on ~~are~~ or after the day on which ~~be~~ he obtained SAAE including the day on which MGMT/TCWG have accepted that they have fulfilled their responsibilities for preparation of financial statements → i.e Date of ~~Book~~ Approval of FS.

(15) UDIN : Unique Document Identification Number.

SA-701: Communicating key Audit in the Independent Auditors Report.

Meaning of KAM: KAM are those matters that are most significant in the conduct of audit of current period in the professional Judgement of auditor & selected from matters already communicated with MGMT/TCWG.

Applicability; Mandatory for
- (1) Listed entities audits
- (2) where law/regulaction requires presenting KAM.

↓
Auditor can present even if not mandatory if he feels necessary in his professional Judgement.

* KAM/EOM is not a substitue/Alternative for
- ~~Disqualified in~~ Modified opinion
- Disclosure in FS
- Highligting Material uncertainities about GC.

KAM/EOM → Not a separate opinion at all & Presented only after forming & Expressing an opinion on FS as whole.

Can a KAM/EOM be presented along with MO?

AO
- UMO
  - KAM
- MO
  - AO/QO
    - KAM ✓ → But the reasons for AP/QO shall be presented in BQO/BAO para and any other matters can be KAM.
  - DOO
    - KAM ×
      - Because DOO is given only when audit could not be conducted

Objectives of presenting Key Audit matters : SA 701.

1) To enchance the communicating value of Auditors Report.
2) To Bring in tranperamscy of audit procedure being performed to users of financial statements.
3) To enable users of FS better understand → Significant + MGMT + Judgement + that are imp in prof. Judge of auditor.
   → significant Transactions (or) Events also.

Factors to be considered in determining key Audit Matter (KAM):

1) Areas of higher assesseed (ROMM) Risk of Material Mistatements.
2) Matters involving significant managment judgements especially Estimates & Assumptions.
3) Significant transaction (or) events.

Prohibition on presenting KAM:

1) Auditor presenting disclaimer of opinions.
2) Any matter → prohibited by law to be disclosed (or)
→ Highly sensitive & confidential
→ If disclosed would create an Adverse effect.

SA 706: Emphasis of matter & other matter paragraph.

Emphasis of Matters; Meaning & objective: Matters that are highlighted by auditor in his audit report about which there is already an appropriate presentation & Disclosure in FS to make user for better understanding.

Manner of presenting KAM & EOM:

* key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Standalone financial Statements of the current period.
* These matters were addressed in the context of our audit of the Standalone FS as whole, and informing our opinion there on, and we don't provide a separate opinion on these matters.
* we have determined the matters described below to be the key audit matters to be communicated in our report.
* Every matter is explained in an appropriate sub headings.
* presenting EOM is the professional Judgement of Auditor; need not always be Mandatory.

Manner of presenting EOM:

* Explain the matter ~~one~~ are not a separate opinion and are appropriately presentated in FS.

* Eplain the breif the matters being highlighted and ~~reported~~ refer to the location where it is presented in FS.

* Explain the SAAE is obtained about the matter being highlighted

* when emphasis of matter can be presentated;

1) when a matter is other than that is decided to be a KAM where SA 701 applies

(and)

2) when a matter is other than a reason for issuing a modified opinion.

Example of other matter paragraph;

- Branch Audit not conducted but permitted by law.
- Branch audit was conducted by branch Auditor
- IAE — PY Audit not conducted / PY audit by predecessor auditor
- Joint auditors presenting seperate report.
- Amendment of auditors report as requried under SA560.

SA 510; Intial Audit enagment - opening balances

↓

Initally preceeding PY

↓ ↓

Un liked or Audited by precedor auditor

Audit procedures to meet the above objective :

1) Evaluate whether closing balances of PY are brought to CY as OB & whether prior period items are appropriate accounted for
2) Check whether accounting policies applied in OB are appropriate and in line with requsite of AFRFW.
3) Perform any one or more of following:
   (i) Review the PY audited FS & AR and conclude on whether OB are reliable (or).
   (ii) Evaluate whether the AP performed for CY provide evidence about opening Balance
   (or)
   (iii) perform Adult procedure for evaluating OB in specific

Impact on auditor opinion :

1) If auditor could not obtain SAAE about OB even after performing Adverse Audit procedure
   ↓
   QO/Disclaimer → If possible withdraw.
2) If auditor identifies material mistatement through SAAE in opening balance → AO/QO.
3) If predecessor auditor issued MO & issue is unresolve → CY Auditor shall issue MO.

SA 710: comparitive Standard → Corresponding figures; → comparitive FS.
↓
Information related to PY(s) presented along with CY FS as requried by AFRFW

Corresponding figures: comparative information presented as integral part of CY FS. and the level of details presented of PY(s) depends on relevance of comparability of CY & CFs.

Eg: Sch III ; Banking Act, IRDAI Format, ...,

Comparative FS:

comparative information presented on par with that of CY FS. and if audited, auditors opinion shall adress all the periods being covered in the financial statement.

Objective:

1) Obtain SAAE whether comparitive information is presented & disclosed as req by AFRW or and are their any other MM is comparative information

&

2) Reporting on comparative ~~information~~ information based on audit findings.

Audit procedure about comparitive Information:

1. Evalute whether the closing Balance of PFY are brought to CFY as comparitive information as requried by AFRFW.
2. Evaluate whether AP applied are appropriate and consistenly applied in comparitive information.
3. If auditor assesses higher Risk of material misstatement in CFS or comparitive information. He shall perform add/alternative procedure for obtain SAAE.
4. If CY auditor is the predeccesor auditor, he shall ~~confirm~~ perform the procedure requried by SA560.
5. Obtain a ~~written~~ ~~represnment~~ representation from MGMT/TCWG about appropiralications of CI.

Audit Reporting for Final statements containing corresponding figures:

Auditors report shall adress only those mater that related to current year.

Exemptions → (4):

① previous year auditor issued MO & issue is unresolved.

⇓

CY auditor shall present MO — QO / AO / DO

↓

Basis for QO/AO/DO contain reference of two possibilities.

Only comparative information (or) Both CI & CY.I

If the impact on CY FS is immaterial

If the ~~[illegible]~~ impact on CY FS in material

② PY Auditor issued a unmodified opinion but CI/OB contains material misstatement

⇓

CY auditor shall issue MO — QO / ~~Disclai~~ AO.

↓

Basis for QO &

Basis for MO.

③ PY was unaudited → CY auditor shall present other matter para to explain it to users.

eg

↓

This does not however reduce the responsibility of verifying the opening Balances.

④ PY was audited by predecessor auditor → CY auditor shall present other matter para giving details of

↓

① PY was audited by other auditor

② Date of AR

③ Type of opinion present

④ Reason if any → ~~[illegible]~~ for MO.

Audit Reporting on FS containing comparative FS;

Auditors Report shall adress all the periods for which the FS are presented for except when
↓
PY auditor has ammended his auditors report (under SA560) on the FS that the audited as a reason of CY auditor identyfying MM that were informed to PY auditor by MGMT/TCWG on the request of CY auditor
↓
CY auditor shall adress his report only on the CY financial statements.

⇒ Point Number ③ & ④ → above continues

Applicability of CARO 2020 → Company Auditor Report orders
↓
FY-2021-22

Applicable ⟶ Every company incorporation Foreg in company.
↓
Exceptions

Specified Entities
↓
Banking company,
Insurance company,
Section 8, OPC, Small co.
↓
Not applicable

Private company
All 4 conditions.
↓
① Not a holding or subsidiary of a ~~subst~~ Public company.
② The paid up share capital + Reserve & surplus ≤ 1cr as on Balance Sheet date
③ Agg. O/s Borrowing (Banks, FI) ≤ 1cr on any day during FY
④ Total Revenue ≤ 10cr for the FY.
(RO, OI; C, D)

SA-5160: Subsequent Events:-

Subsequent Events: Events occuring after the balance sheet date but on before the Audit Report date
&
but
facts known to auditor after audit report date about the transaction ocurring before audit report date.

Known before the issue of FS
known after the issue of FS.

Objective of SA 560:-

1) To obtain SAAE whether SE requiring adjustments are appropriatly adjusted by the MGMNT/TCWG as required by AFRFW.
2) Respond appropriatly to facts known to auditor, had it been known prior, the auditor should have amended his audit Report

- After AR Date but before issue of FS to third Party.
- After AR date & even after the issue of FS to 3rd parties.

Audit procedures to obtain SAAE obtain subsquent Events:-

1) understanding the entity's mechanism for identifing subsequent events.
2) Inquire the MGMTS/TCWG as to any subsequent events are identified and appropriatly addressed.
3) Review the subsequent interim fs or the budgets or projections
4) Review the minutes of the meeting of TCWG/MGMT/owners conducted in subsequent period.
5) obtain written represtation from MGMT/TCWG on compliance with the AFRFW (Eg: AS 4).

Responses of auditor to facts known after Audit Report but before issue of FS:-

(i) Discuss with the managment as to the requirement of amendment to FS.

(ii) If auditor had concluded that FS are amended and

MGMT amends the FS

AR shall Evaluate the appro. adj. made & extend the SubEvent Ap till amen. AR date (above 5 points)

(or)

Auditor shall evaluate amendend made & need not extend SE ap till new AR date.

If AFRFW permits MGMT to restrict their adjustment to facts that were reasons for amend. but need not be till new FS date

New AR with 2 dates

or

Amend AR without MO/UMO & of the EOM (or) OM

If AFRFW don't permit MGMT to restrict to old FS date for adj. the events occuring after Balance sheet date.

Issue amended AR — MO / UMO

MGMT don't agree to amend of FS.

Audit not yet provided to MGMT

Create a new audit report with MO — QO / AO

Audit Report ~~not~~ already issued to MGMT

Req. MGMT not to circulate the old audit report and

If MGMT circulate old audit Report

Auditor shall take appropriate action

Eg: Ad in Eng. & local lang. in Nwsppr.

3) Response to facts to known to auditor after the issue of FS:

Along with above procedure

Auditor shall Evaluate appropriate of actions of MGMT to make public to stop reliance on old audited FS.

If inappropriate / MGMT don't take appropriate action → Auditor shall take appropriate action

Written Representation :-

Extras :-

Analytical procedures - Evaluating Financial Information based on acceptable relation among financial & non financial information
&
includes investigating significant differences.