



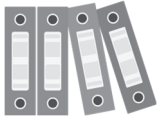
Chapter 7A

Audit Report

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Illustrative Case Study on SA 700: Audit Report, SA 701: KAM, SA 705: Modified Opinion & SA 706: EMP **SA 700: Audit Report**

CA. A got an invitation to attend a seminar on "Audit Conclusions and Reporting Responsibilities of auditors" in context of SA 700 series organized by local branch of WIRC of ICAI. Realizing importance of topic in context of heightened regulatory glare being continuously highlighted in media, he made it sure to attend the seminar. Eminent speakers brought out how significant it is to prepare an audit report in accordance with Standards on Auditing. Audit report is the document by means of which an auditor expresses opinion. Its significance, in context of an audit, is paramount.

SA 705: Modified Opinion

Discussing threadbare such issues, one learned speaker underlined need for 'expression of appropriate opinion' by auditors in view of rapid changes in business environment. If modified opinion is warranted in accordance with SA 705, such an opinion must be expressed by auditors clearly explaining basis for such opinion. In case evidence points to misstatements impact of which is both material and pervasive, auditors should not hesitate to express adverse opinion in audit reports.

It was also made loud and clear that auditors should try to challenge matters such as key underlying assumptions. These should not be meekly accepted by the auditors as these have significant implications for audit report.

It was tried to be explained in context of "Going concern" assumption. Auditors should go all out to see that its use is appropriate in preparation of financial statements by the client by going through client's assessment. If client has not made its assessment, auditor should quiz management regarding justification of it following such an assumption.

Such matters have immediate and direct implications for auditor's report. Like, if in auditor's judgment, use of going concern basis of accounting is inappropriate, adverse opinion needs to be expressed. Raising an alarm, it was clearly transmitted that such matters were too crucial to be taken lightly.

SA 706: Emphasis of Matter Paragraphs

Accentuating value of Emphasis of Matter paragraphs, it was shared by another speaker how to use such paragraphs in audit reports. One fundamental requirement of using such a para in accordance with SA 706 is that such paragraph cannot be used in respect of matters for which modification of opinion is required. These paras are no substitute for modified opinion.

SA 701: Key Audit Matters

Underscoring increase in communicative value of audit reports by highlighting Key Audit Matters identified during the course of audit, it was hammered that not only such matters are stated in accordance with SA 701, manner of addressing such matters by performing audit procedures is also stated in audit reports.



Descriptive Questions

Question 1: SA 700: Auditor's Responsibilities for the Audit of FS

CA Salman Khan: The auditors of a listed company have affirmed in their audit report communication of significant audit findings including significant deficiencies in internal control of the company identified to those charged with governance. Where are such matters included in audit report of a listed company? Also dwell upon importance of such communication.

Answer

Such matters are in nature of auditor's responsibilities and are stated in "*The Auditor's Responsibilities for the Audit of the Financial Statements*" section of the auditor's report in accordance with SA 700. Communication of significant audit findings and deficiencies identified in internal control to those charged with governance is one of important responsibilities of auditor.

Such communication assists those charged with governance in fulfilling their responsibility to oversee the financial reporting process and in fulfilling their oversight responsibilities.

Question 2: Audits conducted in accordance with both SA & ISA

KPI Ltd is a joint venture of KPI Inc, a company based in US, and OPQ Ltd, a company based in Japan (hereinafter referred to as 'JV partners'). KPI Ltd was registered in India and is operating as a marketing support company for KPI Inc. All the costs of KPI Ltd are incurred in India and entire revenue of KPI Inc is generated in USD. The entire funding requirements of KPI Ltd are taken care of by the JV partners. Since KPI Ltd is based in India, hence it is also required to get its financial statements audited.

The company appointed new auditors for the audit of the financial statements for the year ended 31st March 2020 after doing all appointment formalities wherein auditors are required to ensure compliance with Standards on Auditing and International Standards on Auditing.

As an expert you are required to advise the auditor about the requirements regarding auditor's report for audits conducted in accordance with both Standards on Auditing issued by ICAI and International Standards on Auditing.

Answer

In the case, the Auditor's Report may refer to both:-

- (A) Standards on Auditing (issued by ICAI) and
- (B) ISA (International Standards on Auditing) or ASOOJ (Auditing Standards of Other Jurisdiction)

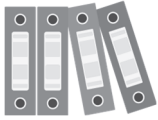
BUT the auditor shall do so only if:

- (a) There is no conflict between the requirements of SA and ISA/ASOOJ that would lead the auditor:
 - (i) to form a different opinion, or
 - (ii) not to include an EMP/OMP paragraph that is required by SAs; and
- (b) The Auditor's Report shall include, at a minimum, each of the elements set out in Auditor's Report Prescribed by Standards on Auditing (SA 700).

When the auditor's report refers to both the ISAs or the auditing standards of a specific jurisdiction and the Standards on Auditing issued by ICAI, the auditor's report shall clearly identify the same including the jurisdiction of origin of the other auditing standards.

Question 3: Certificate for Special Purpose vs. Audit Report

Write a short note on Certificate for Special Purpose vs. Audit Report.



Answer

Certificate for Special Purpose: A certificate is a written confirmation of the accuracy of the facts stated therein and does not involve any estimate or opinion. The term 'certificate' is, therefore, used where the auditor verifies the accuracy of facts. An auditor may thus, certify the circulation figures of a newspaper or the value of imports or exports of a company. An auditor's certificate represents that he has verified certain figures and is in a position to vouch safe their accuracy as per his examination of documents and books of account.

Audit Report: A report, on the other hand, is a formal statement usually made after an enquiry, examination or review of specified matters under report and includes the reporting auditor's opinion thereon. Thus, when a reporting auditor issues a certificate, he is responsible for the factual accuracy of what is stated therein. On the other hand, when a reporting auditor gives a report, he is responsible for ensuring that the report is based on factual data, that his opinion is in due accordance with facts, and that it is arrived at by the application of due care and skill. The 'report' involves expression of opinion which may differ from one professional to another. There is no question of exactitude in case of a report since the information contained therein is based on estimates and involves judgement element.

Question 4: Reporting to Shareholders vs. Reporting to TCWG

Compare and explain the following: - Reporting to Shareholders vs. Reporting to Those Charged With Governance.

Answer

Sec 143 + SA 700

SA-260

Reporting to Shareholders	Reporting to Those Charged with Governance
(1) Section 143 of the Companies Act, 2013 deals with the provisions relating to reporting to Shareholders. Thus, it is a Statutory Audit Report which is addressed to the members.	(1) SA-260 deals with the provisions relating to reporting to those Charged with Governance.
(2) Statutory Audit Report is on <u>true and fair view</u> and as per prescribed Format.	(2) It is a reporting on matters those charged with governance like <u>scope of audit, audit procedures, audit modifications</u> , etc.
(3) Statutory Audit Reports are in <u>public domain</u> .	(3) Reporting to those Charged with Governance is an <u>internal document i.e., private report</u> .

Question 5: SA 701: Drafting of KAM

CA Kapil Sharma: Below is draft extract of audit report of a **listed company**. Para (A) below reflects certain matter stated in audit report communicated with CFO of company and Para (B) is in nature of auditor's response to said matter.

(A) The Company recognizes revenues when the control of goods is transferred to the customer at the net consideration which the Company expects to receive for those goods from customers in accordance with contracts terms and conditions.

The terms of sales arrangements based on the terms and conditions of relevant contract and nature of discount and rebates create complexities that require judgment in determining revenues.

(B) We read the Company's revenue recognition policy and assessed its compliance in terms of Ind AS 115 "Revenue from contracts with customers".

We assessed design and tested the operating effectiveness of internal controls related to sales and rebates or discounts.



We tested on a sample basis that revenue has been recognized in the proper period with reference to the supporting documents including confirmations from customers.

From description given above, identify what auditors are trying to report and under what heading such matter should be reflected in audit report of the company?

KAM → Revenue Recognition

Answer

The above matter is in nature of Key audit matter and should be stated under heading "Key audit matters" in audit report. Key audit matters 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. Key audit matters are selected from matters communicated with those charged with governance.

The only

RAS → AJMJ

SA 701 states that the auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, 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 be taken into account.

Conclusion

The above-described matter relates to revenue recognition and creation of complexities requiring judgment in revenues. Further, the description also describes how the matter was addressed by auditors by performing various audit procedures in accordance with SA 701.

Question 6: SA 701: Determining Key Audit Matters

M/s JPP & Associates have been appointed as auditors of ABC Ltd., an ISO certified listed Indian multinational Jewellery Company having headquarters at Mumbai for F.Y. 2024-25. The company has more than 100 showrooms in India and 60 showrooms across the globe. During the course of audit, from the matters communicated with those charged with governance the auditors determined certain matters as most significant in the audit of the financial statements of the current period which are related to the company's offence of money laundering against which Enforcement Directorate has enforced the stringent provisions of the Prevention of Money Laundering Act (PMLA). Public disclosure of this specific matter by the auditor is not precluded by authorities under PMLA since the same may not prejudice investigation which has already been officially completed and settled on 30th September 2024. What would be the considerations of M/s JPP & Associates in determining the matter requiring significant attention in performing the audit? State the introductory language that JPP & Associates would use while communicating such matter in their audit report as per relevant Standard on Auditing. (5 Marks) (Suggested Nov 2024)

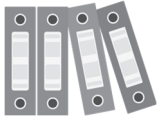
Answer:

Communicating Key Audit Matters in the Independent Auditor's Report: As per SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report", the auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, M/s JPP & Associates shall take into account the following:

- Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315
- 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.
- The effect on the audit of significant events or transactions that occurred during the period.

In view of the above, the matter related to the company's offence of money laundering against which Enforcement Directorate has enforced the stringent provisions of the Prevention of Money Laundering Act (PMLA) is a key audit matter, and the same shall be communicated in the auditor's report KAM.

Q6



The introductory language that M/s JPP & Associates would use while communicating matters in this section of the auditor's report shall state that:

- (i) Key audit matters 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.
- (ii) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.

Question 7: SA 701: Determining KAM, KAM may not relate to FS directly

Mr. Arjun was appointed as the engagement partner for conducting the audit of Kurukshetra Tech Ltd. for financial year 2023-24, on behalf of NEMI & Associates. Mr. Krishna was appointed as the engagement quality control reviewer (EQCR) by the firm for the said audit.

During financial year 2023-24, Kurukshetra Tech Ltd. implemented an ERP system in phases, leading to the automation of certain business processes. This implementation had a substantial impact on the auditor's overall audit strategy. Mr. Arjun discussed the implementation of such a system with Mr. Krishna and also told him that such matter may be a key audit matter to be reported in the audit report.

Mr. Krishna considered the significance of said matter, however, he was of the opinion that ERP implementation did not appear to link with the matters disclosed in the financial statements and so there was no need to disclose such matter as a key audit matter.

Whether the contention of Mr. Krishna is appropriate with respect to the matters to be communicated as a key audit matter? (5 Marks) (MTP-2 Nov 2024)

Krishna is wrong in this case

Answer:

As per SA 701, 'Communicating Key Audit Matters in the Independent Auditor's Report', the auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:

- (i) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315.
- (ii) 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.
- (iii) The effect on the audit of significant events or transactions that occurred during the period.

The auditor shall determine which of the aforesaid matters considered were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters.

These aforesaid considerations focus on the nature of matters communicated with those charged with governance. Such matters are often linked to matters disclosed in the financial statements and are intended to reflect areas of the audit of the financial statements that may be of particular interest to intended users.

The fact that these considerations are required is not intended to imply that matters related to them are always key audit matters; rather, matters related to such specific considerations are key audit matters only if they are determined to be of most significance in the audit.

In addition to matters that relate to the specific required considerations, there may be other matters communicated with those charged with governance that required significant auditor attention and that therefore may be determined to be key audit matters. Such matters may include, for example, matters relevant to the audit that was performed that may not be required to be disclosed in the financial statements. For example, the implementation of a new IT system (or significant changes to an existing IT system) during the period may be an area of significant auditor

RDS

creative.



attention, in particular if such a change had a significant effect on the auditor's overall audit strategy or related to a significant risk (e.g., changes to a system affecting revenue recognition).

Conclusion.

In the given case, there was implementation of ERP system in the company due to which some of its business processes got automated and which had a significant effect on the auditor's overall audit strategy during the period.

As per Mr. Arjun, Engagement Partner, above mentioned matter can be considered as a key audit matter and should be reported in the audit report since it requires significant attention that had affected his overall audit strategy. Mr. Krishna, EQCR, considered the significance of said matter, however, he was of the opinion that ERP implementation did not appear to link with the matters disclosed in the financial statements, therefore, no need to disclose such matter as a key audit matter.

In view of the above, the contention of Mr. Krishna is not appropriate as matters that do not link with the matters disclosed in the financial statements can also be considered as a key audit matter, if it requires significant attention.

Question 8: SA 701: KAM is not a substitute of Modified Opinion

Mgmt wants to inflate profits

While conducting audit of CGX Limited, a listed company, for year 2022-23, CA. Srishti notices that company has extinguished following material liabilities unilaterally without entering into settlement with creditors and reported these amounts as gains under "Other income". The details in this respect are as under: -

S.No.	Particulars	Amount involved
(i)	Liabilities for purchases of raw material were written back on account of poor quality of raw material and difference in rates	₹ 3.50 crores
(ii)	Liabilities for capital goods were written back on account of defects in machinery supplied by creditors	₹ 2.00 crores

The management is of the opinion that these dues are no longer payable. Therefore, retaining these liabilities on financial statements would lead to overstatement of liabilities. Extinguishment of liabilities was made by company in accordance with normal trade practices and outstandings were written back after stopping dealing with such creditors. She wanted to send external confirmation requests to such creditors. However, management informed her that sending such requests may be used by creditors as proof of existence of liability.

She is contemplating inclusion of above matters under "Key audit matters" in audit report. Analyse the situation threadbare. (5 Marks) (MTP-1 May 2024)

Answer:

Ind AS

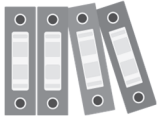
"MO"

A liability is a present obligation of the entity to transfer an economic resource as a result of past events. Instead of fulfilling an obligation to transfer an economic resource to the party that has a right to receive that resource, entities sometimes decide to, for example: -

- (a) settle the obligation by negotiating a release from the obligation;
- (b) transfer the obligation to a third party; or
- (c) replace that obligation to transfer an economic resource with another obligation by entering into a new transaction.

In the above situations, an entity has the obligation to transfer an economic resource until it has settled, transferred or replaced that obligation.

In the given situation, the company has written back liabilities due to creditors unilaterally. The company has not settled the obligation by negotiating a release from the obligation from respective creditors. Such an accounting treatment by management is questionable and against the conceptual framework for financial reporting under Ind AS.



SA 505

CA. Srishti wanted to send external confirmations in accordance with SA 505, "External Confirmations" but management informed her that sending such requests may be used by creditors as proof of existence of liability. In fact, she should display professional skepticism and be alert to the possibility of misstatements in financial statements, if restrained by management from obtaining external confirmations. The reasons advanced by management do not appear to be valid and reasonable. In accordance with SA 505, she should reassess risks and perform alternative audit procedures to mitigate such risks. Besides, she should consider implications of same for her audit opinion.

Circumstances of MO:-

Further, SA 705, "Modifications to the Opinion in the Independent Auditor's Report" requires that the auditor shall modify the opinion in the auditor's report when: -

- (a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

mms

LASAAE

SA 705 also states that misstatements in financial statements arise when selected accounting policies are not in accordance with an applicable financial reporting framework. It also states that examples of an inability to obtain sufficient appropriate audit evidence arise from a limitation on the scope of audit imposed by management when management prevents the auditor from requesting external confirmation of specific account balances. Therefore, she needs to issue a modified opinion.

Conclusion.

Keeping in view above, her contemplation of including above matters under "Key audit matters" is not proper and is not in accordance with SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report". It states that the auditor shall not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with SA 705 as a result of the matter. Communicating key audit matters in the auditor's report is not a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705.

Question 9: SA 705: Types of Modified Opinion

ADKS & Co LLP are the newly appointed statutory auditors of PKK Ltd. During the course of audit, the statutory auditors have come across certain significant observations which they believe could lead to material misstatement of financial statements. Management has a different view and does not concur with the view of the statutory auditors. Considering this the statutory auditors are determining as to how to address these observations in terms of their reporting requirement. Please advise.

mms

Answer

As per SA 705 (Revised), if the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement or the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor shall modify the opinion in his report.

The auditor in such a case needs to determine the modification as follows: -

- (i) **Qualified Opinion:** The auditor shall express a qualified opinion when:
 - (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
 - (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.



✓ (ii) **Adverse Opinion:** 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.

✓ (iii) **Disclaimer of Opinion:** The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence 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.

Extra points on LOSOA
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 that management remove the limitation.

If management refuses to remove the limitation, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity, and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

Question 10: SA 705: Types of Modified Opinion

CA Omkar is the statutory auditor of Sabhyata Ltd. for the FY 2022-23. The company is engaged in the business of manufacture of floor tiles. During the course of audit, CA Omkar obtained certain audit evidence which were not consistent with the affirmation made in the financial statements. Discuss as to how CA Omkar should deal with the situation in the auditor's report.

mms mil gaya = QO/AO
OR

CA Ram is the Statutory Auditor of RJ Ltd. for the financial year 2023-24. The company is engaged in the production of electronic products. During the audit, CA Ram obtained certain audit evidence of incorrect disclosure of related party transactions and structured finance deals which was not considered with the affirmation leading to misstatement in the financial statements. Discuss how CA Ram should deal with the situation in the auditor's report and the different options which can be considered? (5 Marks) (MTP-2 May 2025)

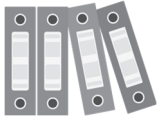
Answer

SA 705 deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700 (Revised), the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

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

- 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 sufficient appropriate audit evidence, may be materially misstated; and
- The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

Further, the auditor shall modify the opinion in the auditor's report when the auditor concludes that based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement.



In the present case, during the course of audit, CA Omkar obtained certain audit evidence which were not consistent with the affirmation made in the financial statements. Therefore, CA Omkar should modify his report in accordance with SA 705 - "Modifications to the Opinion in the Independent Auditor's Report."

CA Omkar should issue either a Qualified Opinion or an Adverse Opinion depending upon the circumstances of the case: -

- (a) CA Omkar shall express a qualified opinion when, having obtained sufficient appropriate audit evidence, he concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements.
- (b) CA Omkar 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.

Thus, since CA Omkar has obtained audit evidence which are inconsistent with the affirmations made in the financial statement, CA Omkar should modify his opinion as per the circumstances of the case.

Question 11: SA 705 (Adverse Opinion) and SA 570 (Going Concern)

Sun Moon Ltd. is a power generating company which uses coal as raw material for its power generating plant. The company has been allotted coal blocks in the state of Jharkhand and Odisha. During the FY 2022-23, a scam regarding allotment of coal blocks was unveiled leading to a ban on the allotment of coal blocks to various companies including Sun Moon Ltd. This happened in the month of December 2023 and as such entire power generation process of Sun Moon Ltd, came to a halt in that month. As a result of such ban, and the resultant stoppage of the production process, many key managerial personnel of the company left the company. There were delays in the of payment of wages and salaries and the banks from whom the company had taken funds for project financing also decided not to extend further finance or to fund further working capital requirements of the company.

Further, when discussed with the management, the statutory auditor understood that the company had no action plan to mitigate such circumstances. Further, all such circumstances were not reflected the financial statements of Sun Moon Ltd. What course of action should the statutory auditor of the company consider in such situation?

Answer

SA - 570

SA 570 - "Going Concern" deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.

The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

When the use of Going Concern Basis of Accounting is Inappropriate i.e., if the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion.

GC is inappropriate = Adverse Opinion

MU = QO/AO

Also, when adequate Disclosure of a Material Uncertainty is not made in the Financial Statements the auditor shall:

- (i) Express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705 (Revised); and
- (ii) In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.



In the present case, the following circumstances indicate the inability of Sun Moon Ltd. to continue as a going concern:

CC indicators -

- ✓ Ban on the allotment of coal blocks.
- ✓ Halt in power generation.
- ✓ Key Managerial Personnel leaving the company.
- ✓ Banks decided not to extend further finance and not to fund the working capital requirements of the company.
- ✓ Non availability of sound action plan to mitigate such circumstances

Therefore, considering the above factors it is clear that the going concern basis is inappropriate for the company. Further, such circumstances are not reflected in the financial statements of the company. As such, the statutory auditor of Sun Moon Ltd. should: -

SA-705.

- (1) Express an **Adverse Opinion** in accordance with SA 705 (Revised) and
- (2) In the **Basis of Opinion** paragraph of the auditor's report, the statutory auditor should state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

CARO-3(xix)

The auditor is also required to report as per **clause (xix) of CARO 2020** that 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 1 year from the balance sheet date.

Question 12: SA 705: Management-Imposed Limitation on Audit Opinion

LO SOA

All in One Ltd., a large departmental store, appointed CA. Kabir as the statutory auditor. After accepting the engagement and performing the audit procedures, he noticed that the management has restricted his access to key inventory records and certain supplier confirmations. These limitations are likely to prevent from obtaining sufficient appropriate audit evidence relating to significant balances in the financial statements. When Kabir requested to remove the restrictions, the management refused, stating that the information is confidential and sensitive. You have communicated the issue to those charged with governance, but the restriction still remains. What are the consequences of this management-imposed limitation on audit opinion and what actions should Kabir take as an auditor in response to the limitation? (4 Marks) (MTP-1 Sept 2025)

Answer:

Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement: As per SA 705, "Modification to the Opinion in the Independent Auditor's Report", 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 that management remove the limitation.

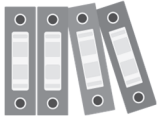
①

If management refuses to remove the prescribed limitation, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

②

If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:

③



- (i) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
- (ii) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, 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:
 1. Withdraw from the audit, where practicable and possible under applicable law or regulation; or
 2. If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements.

4. If the auditor withdraws as discussed above, before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.

Conclusion

In the given case, management imposed limitation on audit opinion. Thus, CA. Kabir should take above mentioned actions in response to such limitations.

Question 13: SA 705: Drafting Disclaimer of Opinion

You have been appointed as an auditor of Megh & Sons for FY 2024-25, as entity other than a company incorporated under the Companies Act, 2013, using a fair presentation framework. The appointment was made in April 2025. The financial statements have been prepared by the management in accordance with the Accounting Standards. The management introduced the new computerized accounts receivable system in November 2024, which is still in the implementation phase. Consequently, the management is in the process of rectifying system deficiencies and correcting errors. Upon implementation of new system, the earlier system of accounting of receivables had been discontinued. The auditor was unable to obtain sufficient appropriate audit evidence about the entity's accounts receivable and inventories. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements. Draft the Opinion Paragraph and Basis for Opinion Paragraph to be included in the independent Auditor's Report. (5 Marks) (MTP- Sept 2025)

Answer:

Opinion Paragraph: In the given situation, the auditor of Megh and Sons was unable to obtain sufficient appropriate audit evidence regarding accounts receivable and inventories, of which impact can be material and pervasive to the financial statements as a whole. Thus, a disclaimer of opinion will be given for the same.

(I) Disclaimer of Opinion

We were engaged to audit the financial statements of Megh & Sons ("the entity"), which comprise the balance sheet as at March 31, 2025, the statement of Profit and Loss, (the statement of changes in equity) and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the entity. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

(II) Basis for Disclaimer of Opinion

We were not appointed as auditors of the Company until after March 31, 2025, and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at March 31, 2024, and 2025, which are stated in the Balance Sheets at ₹ xxx and ₹ xxx, respectively. In addition, the introduction of a new computerised accounts receivable system in November



2024 resulted in numerous errors in accounts receivable. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the Balance Sheet at a total amount of ₹ xxx as at March 31, 2025. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of Profit and Loss (and statement of cash flows).

Question 14: SA 705: Drafting Disclaimer of Opinion

Spice Ltd., FMCG company, having its tea gardens in northeastern states of the country is exclusively dealing in blending, processing, packing and selling of various brands of tea. During the year under audit, the company entered into joint venture for purchasing Tea Gardens in South Africa and Vietnam. M/s Dharam & Associates are the statutory auditors of the company for the financial year 2023-24. During the audit, the audit team was unable to obtain sufficient appropriate evidence about a single element of the consolidated financial statements being Joint venture investment in Croptop Ltd. representing over 89% of the group's net assets having both material and pervasive possible effect to the consolidated financial statements. The group's investment in Croptop Ltd. is carried at ₹ 120 crore in the group's consolidated balance sheet.

Draft the opinion paragraph and basis of opinion paragraph to be included in the Independent Auditor's report. (5 Marks) (MTP-1 Nov 2024)

Answer:

M/s Dharam & Associates are unable to obtain sufficient appropriate audit evidence about the financial information of a joint venture investment that represents over 89% of the group's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are both material and pervasive to the consolidated financial statements. Therefore, the statutory auditor should issue a disclaimer of opinion.

The relevant extract of the Disclaimer of Opinion paragraph and basis for Disclaimer of Opinion paragraph is as under:

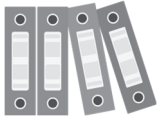
(I) Disclaimer of Opinion

We were engaged to audit the accompanying consolidated financial statements of Spice Ltd., (hereinafter referred to as the "Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group), which comprise the consolidated balance sheet as at March 31, 2024, the consolidated statement of Profit and Loss, (consolidated statement of changes in equity) and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "Consolidated Financial Statements").

We do not express an opinion on the accompanying consolidated financial statements of the group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

(II) Basis for Disclaimer of Opinion

The Group's investment in its joint venture Croptop Ltd. company is carried at ₹ 120 crore on the Group's consolidated balance sheet, which represents over 89% of the Group's net assets as at March 31, 2024. We were not allowed access to the management and the auditors of Croptop Ltd., including audit documentation of auditors of Croptop Ltd. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of Croptop Ltd.'s assets that it controls jointly, its proportional share of Croptop Ltd.'s liabilities for which it is jointly responsible, its proportional share of Croptop Ltd.'s income and expenses for the year, (and the elements making up the consolidated statement of changes in equity) and the consolidated cash flow statement.

**Question 15: SA 705: Drafting Disclaimer of Opinion**

The extract of the financial statements of Nex Limited for the financial year 2023-24 is as follows:

Particulars		Rupees (in Crores)
Trade Receivable - Unsecured considered Good	175	225.00
Provision for Bad and Doubtful Debts		- 50.00
Stock of Raw Materials	430	180.00
Stock of Finished Goods		250.00
Total of Assets		950.00

CA Yash is the statutory auditor of Nex Ltd. for the FY 2023-24. During the course of audit CA Yash noticed the following:

- With respect to the debtors amounting to ₹ 175 crore, no balance confirmation was received by the audit team. Further, there have been defaults on the payment obligations by debtors on the due dates during the year under audit. The company has created a provision for doubtful debts to the tune of ₹ 50 crore during the year under audit. The company has stated that the provision is based on receivables which are older than 36 months, which according to the audit team is inadequate and as such the audit team is unable to ascertain the carrying value of trade receivables.
- Further, in respect of inventories (which constitutes 45% of the total assets of the company), during the reporting period, the management has not undertaken physical verification of inventories at periodic intervals. Also, the company has not maintained adequate inventory records at the factory. The audit team was unable to undertake the physical inventory count as such the value of inventory could not be verified.

What kind of opinion should be given by CA Yash in the given situation? Draft a suitable Opinion and Basis of Opinion paragraph. (RTP Nov 2024)

Answer:

In the present case, CA Yash is unable to obtain sufficient and appropriate audit evidence with respect to the following:

- The balance confirmation with respect to debtors amounting to ₹ 175 crores are not available. Further there has been default in payment by the debtors and the provision so made is not adequate. The audit team is also unable to ascertain the carrying value of trade receivables.
- With respect to 45% of the company's inventory, neither the physical verification has been done by the management nor adequate inventory records are maintained. The audit team is also unable to undertake the physical inventory count as such the value of inventory could not be verified.

In the above two circumstances the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

Thus, CA Yash should give a Disclaimer of Opinion.

The relevant extract of Disclaimer of Opinion and Basis for Disclaimer of Opinion paragraph is as under:

(I) Disclaimer of Opinion

We do not express an opinion on the accompanying financial statements of Nex Ltd. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

(II) Basis for Disclaimer of Opinion

We are unable to obtain balance confirmation with respect to the debtors amounting to ₹ 175 crore. Further, there have been defaults on the payment obligations by debtors on the due dates during the year under audit. The company



has created a provision for doubtful debts of ₹ 50 crore during the year under audit which is inadequate in the circumstances of the company. The carrying value of trade receivables could not be ascertained.

Further, in respect of inventories (which constitute 45% of the total assets of the company), during the reporting period, the management has not undertaken physical verification of inventories at periodic intervals. Also, the company has not maintained adequate inventory records at the factory. We were unable to undertake the physical inventory count and as such the value of inventory could not be verified.

Question 16: SA 705: Drafting Qualified Opinion

CA. Navya is the statutory auditor of Lakshay Ltd. for the Financial year 2022-23. In respect of loans and advances of ₹ 75 Lakh given to Hariharan Pvt. Ltd., the Company has not furnished any agreement to CA. Navya and in the absence of the same, he is unable to verify the terms of repayment, chargeability of interest and other terms. Justify the type of opinion which CA. Navya should give in such a situation. Also, Draft an appropriate Opinion paragraph and Basis of opinion paragraph. (5 Marks) (MTP-1 May 2024)

Answer:

In the present case, with respect to the loans and advances of ₹ 75 Lacs given to Hariharan Pvt. Limited, the Company has not furnished any agreement to CA. Navya. In the absence of such an agreement, CA. Navya is unable to verify the terms of repayment, chargeability of interest and other terms. For an auditor, while verifying any loans and advances, one of the most important audit evidence is the loan agreement. Therefore, the absence of such a document in the present case, tantamount to a material misstatement in the financial statements of the company. However, the inability of CA. Navya to obtain such audit evidence is though material but not pervasive so as to require him to give a disclaimer of opinion.

Thus, in the present case, CA. Navya should give a qualified opinion.

The relevant extract of the Qualified Opinion Paragraph and Basis for Qualified Opinion paragraph is as under:

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements of Lakshay Ltd. 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 on 31.03.2023 and profit/ loss for the year ended on that date.

Basis for Qualified Opinion

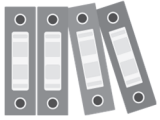
The Company is unable to furnish the loan agreement with respect to loans and advances of ₹ 75 Lacs given to Hariharan Pvt. Ltd. Consequently, in the absence of such an agreement, we are unable to verify the terms of repayment, chargeability of interest and other terms.

Question 17: SA 705 & 706: Qualified Opinion and Emphasis of Matter Paragraph

BPMR and Associates, a renowned audit firm in the field of CA practice for the past three decades, was appointed to conduct the statutory audit of Rexlon Ltd., an unlisted company engaged in the business of paper manufacturing. The firm decided to commence the audit for the recently concluded financial year. After making significant progress in the audit, the auditors made the following observations:

Observation 1: The management had disclosed in the financials that, during the year, one of the warehouses of the Company was affected due to a major flood. As a result of the same, the Company had incurred some losses. But the management was of the view that it was not material.

EMP



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Observation 2: Due to the flood, few records maintained by the Company with respect to a particular transaction were completely destroyed and there was no duplicate record maintained by the Company. However, those details were not pervasive, but material.

You are required to advise whether BPMR and Associates should report Observation 1 and 2 in its audit report? If so, under which heading should it be reported? (4 Marks) (MTP-2 May 2024)

Answer:

Observation 1 - The management had disclosed in the financials that, during the year, one of the warehouses of the Company was affected due to a major flood. As a result of the same, the Company had incurred some losses. But the management was of the view that it was not material. As per SA 706, "Emphasis of Matter Paragraph & Other Matter Paragraph in the Independent Auditor's Report", an Emphasis of Matter Paragraph refers to matter appropriately disclosed in the financials, that in the auditor's judgement is of such importance that it is fundamental to users' understanding of the financials. Hence, in this case, the auditor shall report about the consequences of the flood which affected the company's warehouse under **Emphasis of Matter Paragraph**.

Observation 2 - Due to flood, few records maintained by the Company with respect to a particular transaction were destroyed and no duplicate records were maintained by the Company. However, those details were not pervasive, but material. As per SA 705, "Modifications to the Opinion in the Independent Auditor's Report", where the auditor is unable to obtain sufficient and appropriate audit evidence and where such matter is material but not pervasive, the auditor shall issue **a Qualified opinion**.

Thus, in the given situation, on account of flood few records pertaining to particular transactions were completely destroyed and in the absence of duplicate records, the auditor was unable to obtain sufficient and appropriate audit evidence and those details were material but not pervasive. Therefore, in accordance with SA 705, the auditor is required to issue Qualified opinion.

Foreign Branch converts to Indian Subsidiary (Nancy)
Delhi

Question 18: SA 706: Drafting Opinion Paragraph and Emphasis of Matter

Fancy Limited is a foreign company providing software support services having its Branch Office at Delhi. During the year 2023-24, Fancy Limited incorporated a subsidiary Nancy Private Limited in Gurgaon. For furtherance of objectives, Fancy Limited entered into a Business Transfer Agreement dated 5th October 2023 with Nancy Private Limited for transfer of all assets and liabilities along with the business of Delhi Branch to Nancy Private Limited on a going concern basis effective from 01st April, 2023. Further necessary approval from regulatory authorities is also received on 20th December, 2023 for such transfer. Fancy Limited promised that it shall provide continuing financial and operational support to Delhi Branch and further confirmed that any losses incurred post the date of transfer shall be borne by Fancy Limited.

During the year 2023-24, Delhi Branch of Fancy Limited have prepared its financial statements on the basis that the Branch Office does not continue to be a going concern and all its assets are carried in the books of accounts at the values likely to be recovered at the time of closure of operations, to the extent ascertainable at the time of preparation of the financial statements. Delhi Branch has incorporated above matter in detailed form in Note XX to the financial statements.

You are the statutory auditor of Delhi Branch of Fancy Limited for the financial year 2023-24. According to you, Delhi Branch has correctly disclosed about the matter in Note XX to the Financial Statements regarding management's intention to close the operations of the branch office. Further you have obtained sufficient appropriate audit evidence concerning audit and on the verge of finalization of audit report.

Draft a suitable opinion paragraph and basis thereof in the given case along with disclosure of Note XX with suitable place in audit report in terms of relevant auditing standard. (5 Marks) (Suggested May 2024)

4A - EMP
after Basis for
opinion.

Answer:

Drafting of Opinion Paragraph and basis thereof along with disclosure of Note XX:

INDEPENDENT AUDITOR'S REPORT

To the Members of Delhi Branch Office of Fancy Limited
Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the standalone financial statements of Delhi Branch Office of Fancy Limited ("the Company"), which comprise the balance sheet as at March 31, 2024, and the statement of Profit & Loss, (statement of changes in equity) and the statement of cash flows for the year then ended, and 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 a true and fair view, in conformity with the accounting principles generally accepted in India, of the state of affairs of the Delhi Branch Office of the Company as at March 31, 2024 and profit/loss, (changes in equity) and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Standards on Auditing (SAs). 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 ethical requirements that are relevant to our audit of the financial statements as per the ICAI's Code of Ethics and the provisions of the Companies Act, 2013, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note XX regarding Delhi Branch Office management's intention to close the operations of the Branch Office subject to regulatory approvals. Accordingly, the financial statements have been prepared on the basis that the Delhi Branch Office does not continue to be a going concern and provisions have been made in the books of account for the losses arising or likely to arise on account of closure of operations including the losses on the realizability of current assets.

Our opinion is not modified in respect of this matter.

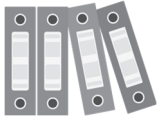
Question 19: SA 706: EMP is not a substitute of Modified Opinion

Groof Limited is engaged in the business of executing construction contracts for its clients. As on 31st March, 2024, the company's financial statements reflect non-current receivables outstanding amount of ₹ 500 crore. Such amounts arise from claims raised by the company on its clients due to cost overruns caused by project delays, change in work specifications and related matters. Besides negotiations, the company has also gone for arbitration in some of the said cases. The management has stated in the notes to account that these amounts are fully recoverable.

CA Arohan, auditor of the company, has relied only upon management representation in this regard. Additionally, he has decided to include this matter in "Emphasis of Matter Paragraph" in audit report.

Evaluate the appropriateness of the auditor's decision to include this matter in "Emphasis of Matter Paragraph"? (5 Marks) (MTP-1 May 2025)

Answer:



In accordance with SA 706, Emphasis of Matter Paragraph is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

As per SA 706, the objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to: -

- (a) A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements or
- (b) As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Further, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided the auditor would not be required to modify the opinion in accordance with SA 705 as a result of the matter.

In the given situation, auditor has relied upon management representation letter only. He has not performed any other audit procedures like verifying contracts with customers, status of arbitration proceedings etc. Since management representations by themselves do not constitute sufficient appropriate evidence, performing necessary audit procedures may lead auditor to conclude that MODIFICATION in opinion is necessary. In such circumstances, matter CANNOT be included in Emphasis of matter Paragraph.

Therefore, CA Arohan should form his opinion by performing necessary audit procedures and obtaining sufficient appropriate evidence. It is only when he concludes that modification of opinion is not required as a result of said matter in terms of SA 705, the said matter may be included in Emphasis of Matter paragraph.

Question 20: SA 706: Emphasis of Matter Paragraph

Act Pharma Limited is engaged in manufacturing of active pharmaceutical ingredients. Due to change in laws and regulations, every company engaged in manufacturing in active pharmaceutical ingredients would now require production capacity license which will restrict the production of companies. Management of the company assessed the impact of the change in law over the financial position of company and appropriately disclosed the same in the financial statement.

Audit Team of the company evaluated management's disclosure and found it appropriate and sufficient. However, considering the said matter as most important and fundamental to users understanding regarding financial statement the audit team decided to disclose the same in Other Matter Paragraph.

You as an Engagement Partner are required to guide the Audit Team with respect to reporting of the said matter in Audit Report. (4 Marks)

Answer:

As per SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report", if the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided:

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

In the instant case, since Act Pharma Limited is engaged in manufacturing of active pharmaceutical ingredients, would now require production capacity license which will restrict the production of companies, due to change in laws and



regulations. Management of the Act Pharma Limited assessed the impact of the change in law over the financial position of company and appropriately disclosed the same in the financial statements.

Audit team of the Act Pharma Limited evaluated management's disclosure and found it appropriate and sufficient. However, considering the said matter as most important and fundamental to users understanding regarding financial statements the audit team decided to disclose the same.

The said matter is already disclosed and presented appropriately in financial statements and is of such importance that is fundamental to the users understanding of the financial statements and hence, it required to be disclosed under Emphasis of Matter paragraph.

Therefore, decision of audit team to disclose the same in Other Matter Paragraph is not in order, it should be disclosed in Emphasis of Matter Paragraph.

Question 21: SA 710: If Auditor's Report on Prior Period included a Qualified Opinion

Neptune Ltd. is a company that holds significant investments in a portfolio of equity securities. Due to a decline in market values, the company's investments have suffered a notable diminution in value. For the financial year ended 31st March 2023, the audit report of Neptune Ltd. included a qualification regarding the non-provision of ₹ 70 lakh for the diminution in the value of these investments. As the auditor for the financial year 2023-24, how would you report in the following situations:

- (i) If the company does not make a provision for the diminution in the value of investments in the year 2023-24?
- (ii) If the company makes an adequate provision for the diminution in the year 2023-24? (5 Marks) (MTP-2 Nov 2024)

unresolved

resolved

Answer:

As per SA 710, "Comparative Information – Corresponding Figures and Comparative Financial Statements", when 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 modified opinion is resolved and properly accounted for or disclosed in the financial statements in accordance with the applicable financial reporting framework, the auditor's opinion on the current period need not refer to the previous modification.

4 dialogs:-

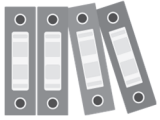
SA 710 further states that if the auditor's report on the prior period, as previously issued, included a qualified opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements. In the Basis for Modification paragraph in the auditor's report, the auditor shall either:

- (i) Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; or
- (ii) 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 current period's figures and the corresponding figures

In the instant case, if Neptune Ltd. does not make provision for diminution in the value of investment to the extent of ₹ 70 lakh, the auditor will have to modify his report for both the current and previous year's figures as mentioned above. If, however, the provision is made, the auditor need not refer to the earlier year's modification.

Question 22: SA 710: If Prior Period Auditor's Report is Modified, Predecessor Auditor

Kuber Tech Solutions Ltd. is in the process of finalising its financial statements for the year ended 31st March 2025. The company is required to present comparative financial statements, including figures for the year ended 31st



March 2024. Roshan & Co., Chartered Accountants, has been appointed as the statutory auditor for the current year. During the audit, CA Roshan, the engagement partner, notes the following:

Particulars	FY 2023-24	FY 2024-25
Auditor	Gupta & Mehra LLP, Chartered Accountants	Roshan & Co., Chartered Accountants
Audit Opinion	Adverse AO	Audit in progress
Reason for Modified Opinion	Material misstatement in valuation and disclosure of trade receivables	Misstatement remains uncorrected Unresolved
Presentation of Financial Statements	Figures presented as comparatives in FY 2024-25 audit	Comparative financial statements (current + previous year)

- (a) What are the duties of CA Roshan while reporting on the current year's financial statements, considering the prior year's adverse opinion?
- (b) What modifications or disclosures are required in the current year's audit report in accordance with the relevant Standards on Auditing? (RTP Sept 2025)

Answer:

- Re-dialog.**
- (a) In the given case, CA Roshan noticed that the previous year's financial statements contained an adverse opinion for the financial statement whole due to a misstatement in the evaluation and disclosure of the trade receivables. As per SA 710, "Comparative Information-Corresponding Figures and Comparative Financial Statements", if the auditor's report on the prior period, as previously issued, included an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements. In the Basis for Modification paragraph in the auditor's report, the auditor shall either:
- Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; or
 - 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 current period's figures and the corresponding figures.
- In the present case, the matter leading to the prior year's adverse opinion i.e., material misstatement in trade receivables from the prior year remains uncorrected in the current year's financial statements, CA Roshan must modify the current year's audit opinion, in accordance with SA 710.
- (b) When comparative financial statements are presented, the auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed. If the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's financial statements, the auditor shall state in an Other Matter paragraph:
- That the financial statements of the prior period were audited by a predecessor auditor; **POD**
 - The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
 - The date of that report.

In the given case, the previous year's audit was conducted by Gupta & Mehra LLP, who issued an adverse opinion due to a misstatement in trade receivables. Accordingly, CA Roshan should include an Other Matter paragraph in the current year's auditor's report, disclosing that the prior year financials were audited by Gupta & Mehra LLP; an adverse opinion was expressed due to material misstatement in trade receivables; and the date of the prior auditor's report.



Question 23: SA 720: Management refuses to correct Other Information

PQR Motors Ltd., a listed entity engaged in the manufacture, and sale of automobiles and related parts has prepared its annual financial statements for the financial year 2024-25. The company's management is also responsible for preparing other information, which includes:

(1) Annual Report:

- A Director's Report and Management Discussion & Analysis (MD&A) prepared by the management.
- A Corporate Social Responsibility (CSR) report highlighting the company's initiatives and outcomes.

(2) Chairman's Message:

A message from the chairman discussing the company's financial performance and strategic outlook.

(3) Future Projections:

Forward-looking statements in the annual report about anticipated growth in revenue and expansion plans.

The Statutory auditors, M/s ST & Co., Chartered Accountants, have completed its audit of the financial statements and prepared the auditor's report. During the course of the audit, the following circumstances arise:

- The Director's Report and MD&A are finalized and provided to the auditor before the date of the auditor's report.
- The Chairman's Message and Future Projections are not finalized but are expected to be included in the annual report, which will be released after the auditor's report is issued.

Issues Identified:

- (1) In the MD&A, M/s ST & Co., noted a misstatement regarding the company's claim of achieving a 20% reduction in production costs. Audit evidence suggests the reduction was only 10%.
- (2) The Chairman's Message which is yet to be reviewed, contains optimistic revenue projections that appear inconsistent with the historical growth trend.

Answer the following with reference to the relevant Standard on Auditing:

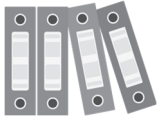
- (i) What should M/s ST & Co., include in the "Other Information" section of the auditor's report for PQR Motors Ltd.?
- (ii) If management does not correct the identified misstatement in the MD&A, even after the same was brought to their attention, what should M/s ST & Co. report under the "Other Information" section? (5 Marks) (Suggested May 2025)

Answer:

- (i) As per SA 720 (Revised), "The Auditor's Responsibilities Relating to Other Information", the auditor is required to report on "Other Information" in the auditor's report for listed entities. "Other Information" refers to financial and non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.

In the "Other Information" section of the auditor's report, the following should be included:

- A statement that management is responsible for the other information included in the annual report.
- Identification of other information obtained:
 - The Director's Report and MD&A have been obtained prior to the date of the auditor's report.
 - Mention of other information expected to be obtained later (e.g., Chairman's Message and Future Projections)
- A statement that the auditor's opinion does not cover the other information, and the auditor does not express any form of assurance conclusion on it.



- A description of the auditor's responsibilities relating to reading, considering, and reporting on the other information as per SA 720.
 - A statement on the results of the auditor's review of the other information:
 - If no misstatement is identified, a statement to that effect.
 - If a material misstatement is identified, a description of the uncorrected misstatement (as applicable)
- (ii) As per SA 720 (Revised), if the auditor identifies a material misstatement in the other information and management refuses to correct it, M/s ST & Co. shall report the uncorrected misstatement in the "Other Information" section as:
- We have identified a material misstatement in the MD&A regarding the company's claim of a 20% reduction in production costs. However, based on our audit evidence, the reduction was only 10%.

Question 24: SA 720: Auditor's Responsibility in Relation to Other Information

Kailash & Co., Chartered Accountants, has been appointed as statutory auditor of Diksha Ltd. for the F.Y. 2023-24. The audit team has completed the audit and is in the process of preparing the audit report. The management of the company has also prepared a draft annual report.

The audit in-charge was going through the draft annual report and observed that the company has included an item in its annual report indicating a downward trend in market prices of key commodities/raw material as compared to the previous year. However, the actual profit margin of the company as reported in financial statements has gone in the reverse direction. The Audit Manager discussed this issue with a partner of the firm who replied that auditors are not covered with such disclosures made by the management in their annual report, it being the responsibility of the management.

Is the partner's approach appropriate in this situation? Analyse the issue with reference to the relevant Standard on Auditing and the auditor's duties with regard to reporting. (5 Marks) (MTP-1 May 2025, MTP May 2024)

Answer:

Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists: As per SA 720, "The Auditor's Responsibility in Relation to Other Information", descriptions of trends in market prices of key commodities or raw materials is an example of amounts or other items that may be included in the other information.

The auditor's discussion with management about a material inconsistency (or other information that appears to be materially misstated) may include requesting management to provide support for the basis of management's statements in the other information. Based on management's further information or explanations, the auditor may be satisfied that the other information is not materially misstated. For example, management explanations may indicate reasonable and sufficient grounds for valid differences of judgment.

Auditor's duties with regard to reporting in the given case are given hereunder:

As per SA 720, "The Auditor's Responsibility in Relation to Other Information", if the auditor concludes that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management:

- (1) Agrees to make the correction, the auditor shall determine that the correction has been made; or
- (2) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made.

In the given case, while reviewing the draft annual report, the audit in-charge noticed that the company reported a decline in market prices of key raw materials compared to the previous year. However, the company's reported profit margins in the financial statements showed an increasing trend.

The Audit Manager discussed this issue with a partner of the firm who replied that auditors are not covered with such disclosures made by the management in their annual report, it being the responsibility of the management. Therefore, it can be concluded that the partner's approach is not appropriate.

Question 25: Section 143(12) and CARO – Fraud Reporting

During the course of audit of PEC Limited, CA Guru has reason to believe that a fraud involving Rs.75 lakhs has been committed in the company by its employees. Is CA Guru under statutory obligation to report the above matter to Central government by filing prescribed form on MCA Portal? How should he proceed to report above said matter?

(4 Marks) (MTP-2 Nov 2024)

NO

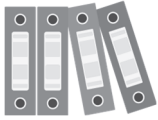
Report in CARO 3(x i)

Answer:

As per section 143(12) of the Companies Act, 2013 read with Rule 13 of the Companies (Audit and Auditors) Rules, 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 Central Government within such time and in such manner as prescribed.

In the given case, CA Guru has reason to believe that a fraud involving ₹ 75 lakhs has been committed in the company by its employees. Therefore, he is under no statutory obligation to report this matter to Central Government by filing prescribed Form (ADT-4) on MCA portal.

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 obligation to report matters pertaining to fraud under clause (xi) of paragraph 3 of CARO, 2020.



OLD Questions

Question 1: SA 700: Forming an Opinion on FS

MN & Associates, Chartered Accountants have been appointed as statutory Auditors of Cotton Ltd. For the F.Y 2020-2021. The Company is into the business of yarn manufacturing. For this purpose, cotton ginning is also done within the factory premises. Raw cotton is purchased from local market and processed in-house. The Company received a notice from the State Government to deposit market development fee for the last 5 years to the tune of ₹ 10.00 crores. The Company and all other organizations in the same business have not deposited the market development fee, taking shelter of an old circular issued by the Government. The trade association met with the government officials to resolve the matter and agreed to deposit the same prospectively. However, the matter relating to payment of development fee for the last 5 years is pending before the Government as at the end of the financial year. The Company, however, disclosed the same in notes to accounts, as contingent liability, without quantifying the effect and proper explanation. If the liability is provided in the books of accounts, entire reserves will be wiped off. Auditor seeks your guidance as to how this disclosure affects them while forming an opinion on financial statements.

Answer:

Forming an opinion and reporting on financial statements — As per Ind AS 37, "Provisions, Contingent Liabilities and Contingent Assets", an entity should disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable.

- (a) an estimate of its financial effect, measured in the standard;
- (b) an indication of the uncertainties relating to the amount or timing of any outflow; and
- (c) the possibility of any reimbursement.

SA - 700 - Forming an opinion and reporting on financial statements: The auditor shall evaluate whether in view of the requirements of the applicable financial reporting framework

- (i) The financial statements adequately disclose the significant accounting policies selected and applied;
- (ii) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
- (iii) The accounting estimates made by the management are reasonable;
- (iv) The information *presented* in the financial statements is relevant, reliable, comparable and understandable;
- (v) 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 financial statements.

If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor shall discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, shall determine whether it is necessary to modify the opinion in the auditor's report in accordance with SA 705.

In the present case, auditor may consider modifying his opinion considering the financial effect of liability not disclosed properly.

Question 2: SA 700: Supplementary Information (SI) presented with the FS

CA S has been appointed as Statutory Auditor of SRT Ltd. For the financial year 2020-2021. The Company while preparing financial statements for the year under audit prepared one additional profit and loss account that disclosed specific items of expenditure and included the same as an appendix to the financial statements. CA. S has not been



able to understand this as the additional profit and loss account is not covered under applicable financial reporting framework. Guide him as to how he should deal with this issue while reporting on the financial statements of SRT Ltd.

See Book

Answer:

If supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether, in the auditor's professional judgment, supplementary information is nevertheless an integral part of the financial statements due to its nature or how it is presented. When it is an integral part of the financial statements, the supplementary information shall be covered by the auditor's opinion.

If supplementary information that is not required by the applicable financial reporting framework is not considered an integral part of the audited financial statements, the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. If this is not the case, then the auditor shall ask management to change how the unaudited supplementary information is presented.

If management refuses to do so, the auditor shall identify the unaudited supplementary information and explain in the auditor's report that such supplementary information has not been audited.

When an additional profit and loss account that discloses specific items of expenditure is disclosed as a separate schedule, included as an appendix to the financial statements, the auditor may consider this to be supplementary information that can be clearly differentiated from the financial statements.

Thus, additional profit and loss account is not considered an integral part of the audited financial statements and the auditor shall evaluate that supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements.

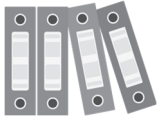
Question 3: SA 700: Supplementary Information (SI) presented with the FS

XYZ Limited involved in the hospitality business, appointed Charan & Karan Associates as their statutory auditor for FY 2022-23. Management of XYZ Limited, while drawing up the financial statement for the said period, decided to add the following statement after the Statement of Cash Flow as supplementary information to be presented with financial statements. No specific mentions or labels were added to this statement to present that this is supplementary information.

Statement of Average Revenue Per Booking (ARPB) and Comparative

Total bookings during FY	
FY 2021-22	36,500
FY 2022-23	39,000
Average revenue per booking	
FY 2021-22 (Refer Note 28 Revenue from Operations)	3,500
FY 2022-23 (Refer Note 28 Revenue from Operations)	4,200
Bookings Ratio (Organic source by Inorganic source)	
FY 2021-22	1:2
FY 2022-23	1:1.65

Kindly guide the audit team regarding the requirement of SA 700 with respect to the Supplementary Information Presented with the Financial Statements.



THEORY

Answer:

As per SA 700 "Forming an Opinion and Reporting on Financial Statements", if supplementary information not required by applicable FRF is presented with audited FS, evaluate whether, in auditor's Professional Judgment, supplementary info is nevertheless an integral part of FS due to its nature or how it is presented.

When it is an integral part of FS, supplementary info shall be covered by auditor's opinion.

If supplementary info not required by applicable FRF is not considered an integral part of audited FS, the evaluate whether such supplementary info presented in a way that sufficiently and clearly differentiates it from audited FS. If this is not the case, ask management to change how unaudited supplementary info is presented. If management refuses, auditor shall identify unaudited supplementary info and explain in auditor's report that such supplementary information has not been audited.

Creative Conclusion

Auditor's evaluation of whether unaudited supplementary info is presented in a manner that could be construed as being covered by the auditor's opinion includes, for e.g., where that information is presented in relation to FS and any audited supplementary info and whether it is clearly labelled as "unaudited".

In current case, the Statement of Average Revenue Per Booking (ARPB) and Comparative is unaudited supplementary information that could be construed as being covered by the auditor's opinion. Hence, the audit team should evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. If not, then audit can suggest management to change the presentation of unaudited supplementary information by:

- ❑ Removing any cross-references from FS to unaudited supplementary schedules or unaudited notes so that the demarcation between the audited and unaudited information is sufficiently clear.
- ❑ Placing unaudited supplementary info outside of FS or, if that is not possible in the circumstances, at a minimum placing unaudited notes together at the end of required notes to FS and clearly labelling them as unaudited. Unaudited notes that are intermingled with audited notes can be misinterpreted as being audited.

If management refuses to do so, auditor shall identify unaudited supplementary info, i.e., Statement of ARPB and Comparative and explain in auditor's report that such supplementary info has not been audited.

Question 4: SA 701: Determining Key Audit Matters

AKY Ltd. is a listed company engaged in the business of software and is one of the largest company operating in this sector in India. The company's annual turnover is ₹ 40,000 crores with profits of ₹ 5,000 crores. Due to the nature of the business and the size of the company, the operations of the company are spread out in India as well as outside India. The company's contracts with its various customers are quite complicated and different. During the course of the audit, the audit team spends significant time on audit of revenue - be it planning, execution or conclusion. This matter was also discussed with management at various stages of audit. The efforts towards audit of revenue also involve significant involvement of senior members of the audit team including the audit partner. After completion of audit for the year ended 31 March 2019, the audit partner was discussing significant matters with the management wherein they also communicated to the management that he plans to include revenue recognition as key audit matter in his audit report. The management did not agree with revenue recognition to be shown as key audit matter in the audit report. Comment.

Answer:

SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report", 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 the form and content of such communication.



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

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

- (i) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment
- (ii) 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.
- (iii) The effect on the audit of significant events or transactions that occurred during the period.

Auditor shall determine which of the matters determined in accordance with above were of most significance in the audit of financial statements of current period and therefore are key audit matters.

In the instant case, AKY Ltd., a listed company engaged in the business of software and its contracts with its various customers are also quite complicated and different. Further, the audit team spends significant time on audit of revenue and efforts towards audit of revenue also involve significant involvement of senior members of the audit team including audit partner during audit.

This matter was also discussed with management at various stages. After completion of audit, the audit partner communicated the management regarding inclusion of paragraph on revenue recognition as key audit matter in his audit report.

In view of SA 701, the assessment of the auditor is valid as above matter qualifies to be a key audit matter in the opinion of auditor. Hence, it should be reported accordingly by the auditor in his audit report

Question 5: SA 701: KAM is not a substitute of Adverse Opinion

While auditing the complete set of consolidated financial statements of J Ltd., a listed company, using a fair presentation framework, PQR & Co., a Chartered Accountant firm, discovered that the consolidated financial statements are materially misstated due to the non-consolidation of one of the subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. The effects of the misstatement on the consolidated financial statements could not be determined because it was not practicable to do so. Thus, PQR & Co. decided to provide an adverse opinion for the same and further determined that, there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section.

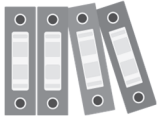
Comment whether PQR & Co. needs to report under SA 701 'Communicating Key Audit Matters in the Independent Auditor's Report'?

Answer:

SA 700 establishes requirements and provides guidance on forming an opinion on the financial statements. Communicating key audit matters is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation.

SA 705, "Modifications to the Opinion in the Independent Auditor's Report", addresses circumstances in which the auditor concludes that there is a material misstatement relating to the appropriateness or adequacy of disclosures in the financial statements.

When the auditor expresses a qualified or adverse opinion in accordance with SA 705, presenting the description of a matter giving rise to a modified opinion in the Basis for Qualified (Adverse) Opinion section helps to promote intended users' understanding and to identify such circumstances when they occur. Separating the communication of this matter



from other key audit matters described in the Key Audit Matters section, therefore, gives it the appropriate prominence in the auditor's report.

Further, when the auditor expresses a qualified or adverse opinion, communicating other key audit matters would still be relevant to enhancing intended users' understanding of the audit, and therefore the requirements to determine key audit matters apply. However, as an adverse opinion is expressed in circumstances when the auditor has concluded that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements depending on the significance of the matter(s) giving rise to an adverse opinion, the auditor may determine that no other matters are key audit matters.

In the given situation J Ltd., a listed company, has not consolidated one of its subsidiary.

Further, Consolidated Financial Statements of J Ltd. are materially misstated due to such non-consolidation. The material misstatement is also deemed to be material and pervasive and effect of the failure to consolidate have not been determined. In the given situation it is appropriate to give Adverse Opinion by PQR & Co., a Chartered Accountant Firm.

Since, in the given case, Adverse Opinion is being expressed thus PQR & Co. can communicate Key Audit Matter in given below manner: Key Audit Matters: Except for the matter described in the Basis for Adverse Opinion section, we have determined that there are no other key audit matters to communicate in our report.

Question 6: SA 705: Drafting Adverse Opinion

ALM Associates has been appointed as auditor of M/s Hary Ltd. which acquired 55% shares-in M/s Sam Ltd. on 15th October 2018. During audit of Harry Ltd., the auditors found that the company has not prepared consolidated financial statements because on the date of acquisition the fair value of certain assets & liabilities has not been ascertained which is significant and are accounted for on estimated basis only. Help ALM Associates in framing opinion paragraph of audit report.

Answer:

Opinion Paragraph of Audit Report: In the instant case, M/s Hary Ltd. acquired 55% shares in M/s Sam Ltd. and the company did not prepare the consolidated financial statements because on the date of acquisition the fair value of certain assets and liabilities has not been ascertained. Therefore, accounting is done on estimate basis only which is not correct as the financial statements are materially misstated due to non-consolidation of subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. Thus, the auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidences, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Adverse Opinion:

In our opinion and to the best of our information and according to explanations given to us, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying consolidated financial statements do not give a true and fair view in conformity with the accounting principles generally accepted in India, of their consolidated state of affairs of the Group, its associates and jointly controlled entities, as at March 31, 2019, of its consolidated profit/loss, (consolidated position of changes in equity) and the consolidated cash flows for the year then ended.

Basis for Adverse Opinion is given below:

As explained in Note X, the M/s Hary Ltd. has not consolidated subsidiary M/s Sam Ltd. that the M/s Hary Ltd acquired during 2018 because it has not yet been able to determine the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on an estimate basis. Linder the

accounting principles generally accepted in India, the Group should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had M/s Sam Ltd. been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

Question 7: SA 705: Determining appropriate Modified Opinion (Adverse Opinion)

While conducting audit of RAC Limited, CA R has discovered a misstatement in the financial statements of a company due to non-write off of a huge trade receivable with an outstanding amount of 2 crores. The party in question has fled from India and is now absconding. After reviewing the audit evidence, it was concluded by the auditor that there is no possibility of recovering the outstanding debt. Despite the matter being brought to the attention of the management, they have refused to correct the misstatement. As a result, the financial statements of the company show a profit before tax of 1 crore, which is incorrect due to the management's refusal to correct the aforementioned misstatement. Materiality has been determined for financial statements @ 5% of profit before tax. Comment as regards to type of opinion to be given by CA R in above situation on the basis of provided information.

Answer:

SA 705 states that the auditor shall modify the opinion in the auditor's report when:

- (a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

In the given situation, auditor has obtained evidence in relation to non-recoverability of outstanding trade receivable. SA 705 further states that 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 this scenario, the uncorrected misstatement stands at 200% of the profit before tax, while the materiality has been determined at 5% of the profit before tax.

Hence, this misstatement should be considered as material. Additionally, if such a substantial amount is written off, it would significantly impact the financial position of the company. As a result, losses would have to be reported instead of profits.

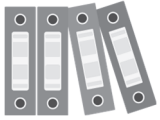
Taking the above factors into consideration, this misstatement should be classified as both material and pervasive. Therefore, Adverse Opinion needs to be expressed in accordance with the requirements of SA 705

Question 8: SA 710: Audit Procedures for Comparative Information

You as a statutory auditor had audited the financial statements of A Ltd., a listed company, for F.Y. 2019-20. The company has included the comparative financial information in the financial statements prepared for the current F.Y. 2020-21. You as an auditor want to obtain sufficient appropriate audit evidence that comparative financial information has been presented, in all material aspects, in accordance with the requirements in the applicable financial reporting framework. List out audit procedures, as specified in relevant SA, which you are required to follow for the purpose.

Answer:

Auditor's Responsibilities in Respect of Corresponding Figures: As per SA 710 "Comparative Information- Corresponding Figures and Comparative Financial Statements", in respect of corresponding figures, the auditor shall determine whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified.



- (1) For this purpose, the auditor shall evaluate whether:
 - (i) The comparative information agrees with the amounts and other disclosures presented in the prior period; and
 - (ii) The accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.
- (2) If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, the auditor shall perform such additional audit procedures as are necessary in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists.
- (3) If the auditor had audited the prior period's financial statements, the auditor shall also follow the relevant requirements of SA 560 "Subsequent Events".
- (4) As required by SA 580, "Written Representations", the auditor shall request written representations for all periods referred to in the auditor's opinion. The auditor shall 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.

Question 9: SA 720: Examples of Amounts or Other Items included in Other Information

LMP Associates, Chartered Accountants, conducting the audit of PQR Ltd., a listed Company for the year ended 31st March 2019 is concerned with the auditor's responsibilities relating to other information, both financial and non-financial, included in the Company's annual report. While reading other information, LMP Associates considers whether there is a material inconsistency between other information and the financial statements. As a basis for the consideration the auditor shall evaluate their consistency, compare selected amounts or other items in the other information with such amounts or other items in the financial statements. Guide LMP Associates with examples of "Amounts" or "other items" that may be included in the "other information" with reference to SA 720.

Answer:

Examples of Amounts or Other Items that May Be Included in the Other Information: As per SA 720 "The Auditor's Responsibility in Relation to Other Information", the following are examples of amounts and other items that may be included in other information. This list is not intended to be exhaustive.

Amounts

- (1) Summary of key financial results, such as Net Income, EPS, Sales, and Purchases and operating expenses.
- (2) Selected operating data, such as sales by geographical segment or product line.
- (3) Special items, such as asset dispositions, litigation provisions, asset impairments, tax adjustments, etc.
- (4) Liquidity and capital resource information, such as cash, marketable securities; dividends; and debt.
- (5) Capital expenditures by segment or division.
- (6) Financial measures or Ratios, such as Gross Margin, Return on Average Capital Employed, Return on Average Shareholders' Equity, Current Ratio. Some of these may be directly reconcilable to FS.

Other Items

- (1) Explanations of Critical Accounting Estimates and Related Assumptions.
- (2) Identification of Related Parties and descriptions of transactions with them.
- (3) Descriptions of Guarantees, Indemnifications, Contractual Obligations, Litigations.
- (4) Descriptions of Changes in Legal or Regulatory requirements, such as new tax or environmental regulations.
- (5) General descriptions of the Business Environment and Outlook.
- (6) Descriptions of Trends in Market Prices of key commodities or raw materials.
- (7) Contrasts of Supply, Demand and regulatory circumstances Between Geographic Regions.

Examples on Scenarios of Modified Opinion**Example 1: Qualified Opinion**

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 2023- 24. 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.

Answer:

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.

Example 2: Adverse Opinion

M/s Taj Raj & Associates are the statutory auditors of Porex Ltd. engaged in the manufacture of premium watches, for the FY 2023-24. 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 31.03.2024.

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.

Answer:

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**.

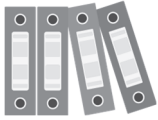
Further, CA Taj should also consider the reporting responsibilities under **CARO 2020** and **Section 143(12)** of the Companies Act, 2013.

Example 3: Disclaimer of Opinion

Delightful Ltd. is a company engaged in the production of smiley balls. During the FY 2023-24 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.

Answer:

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**.

Example 4: Limitation on Scope of Audit by Management

M/s Daisy & Associates are the statutory auditors of Zebra Ltd. for the FY 2023-24. CA Daisy, the engagement partner wants to verify the cash in hand as on 31.03.2024. The cash balance of the company as on 31.03.2024 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.

Answer:

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 31.03.2024. 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.

Example 5: Communication with TCWG in case of Modified Opinion

M/s Sun Moon & Associates are the statutory auditors of Venus Ltd. for the FY 2023-24. 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.

Answer:

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.

Illustrations**Illustration 1: SA 700: Drafting of MURGA in Audit Report**

CA Sameer is the statutory auditor of Tram Fram Ltd. for the FY 2022-23. While concluding the audit CA Sameer decided to issue an unmodified opinion, though he also concluded that a material uncertainty exists with respect to the company's ability to continue as a going concern on account of a pending litigation related to labour laws. He is of the view that the company has made appropriate disclosures with respect to such pending litigation in the notes to accounts annexed to the financial statements of Tram Fram Ltd. for the FY 2022-23. Explain how CA Sameer will deal with the above situation in his auditor's report (draft the relevant portion of the auditor's report.)

Solution**Material Uncertainty Related to Going Concern**



We draw attention to Note 10 in the financial statements, which indicates that the outcome of a litigation on account of labour laws is pending in case of the company during the year 31 March, 2023. As stated in Note 11, this event or condition, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Illustration 2: SA 701: Nil Reporting in KAM

The following illustrates the presentation in the auditor's report if the auditor has determined there are no key audit matters to communicate:

Key Audit Matters

Except for the matter described in the Basis for Modified Opinion section or Material Uncertainty Related to Going Concern section, we have determined that there are no Key Audit Matters to communicate in our report.

Illustration 3: SA 705: Qualified Opinion

CA Sudhir: XYZ Ltd. is a company engaged in the manufacture of cranes. CA Sudhir is the statutory auditor of the company for the FY 2022-23. The company has taken long term funding for fixed capital requirements and short-term funding for its working capital requirements. During the course of audit, CA Sudhir found that the company's financing arrangements are about to expire and the company is unable to re-negotiate or obtain the replacement financing. As such the company may be unable to realize its assets and discharge its liabilities in the normal course of business. Notes to accounts annexed to the financial statements discuss the magnitude of financing arrangements, the expiration and the total financing arrangements; however, the financial statements do not include discussion on the impact or the availability of refinancing. Thus, the financial statements (and notes thereto) do not fully disclose this fact. What kind of opinion should CA Sudhir issue in case of XYZ Ltd.?

Solution

In the present case, XYZ Ltd. is unable to re- negotiate or obtain the replacement financing for its long term and short-term funding requirements. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore, XYZ Ltd. may be unable to realize its assets and discharge its liabilities in the normal course of business. Further, the financial statements of XYZ Ltd. do not disclose this fact adequately.

Thus, the financial statements of XYZ Ltd. are materially misstated due to the inadequate disclosure of the material uncertainty. CA Sudhir will express a **Qualified Opinion** as the effects on the financial statements of this inadequate disclosure are material but not pervasive to the financial statements.

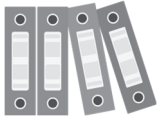
The relevant extract of the Qualified Opinion Paragraph and Basis for Qualified Opinion paragraph is as under: -

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, except for the incomplete disclosure of the information referred to in the Basis for Qualified Opinion section of our report, the aforesaid standalone 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 XYZ Ltd. as at March 31, 2023, and profit/loss, for the year ended on that date.

Basis for Qualified Opinion

As discussed in Note 6, the Company's financing arrangements are about to expire and the Company has been unable to conclude renegotiations or obtain replacement financing. This situation indicates that a material uncertainty



exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this matter.

Illustration 4: SA 705: Adverse Opinion

PP & Associates: ABC Ltd. is a company engaged in the manufacture of iron and steel bars. PP & Associates are the statutory auditors of ABC Ltd. for the FY 2022-23. During the course of audit, CA Prakash, the engagement partner, found that the Company's financing arrangements have expired and the amount outstanding was payable on March 31, 2023. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact. What opinion should CA Prakash express in case of ABC Ltd.?

Solution

In the present case based on the audit evidence obtained, CA Prakash has concluded that 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, and the entity is considering bankruptcy. The financial statements of ABC Ltd. omit the required disclosures relating to the material uncertainty.

In such circumstances, CA Prakash should express an **Adverse Opinion** because the effects on the financial statements of such omission are material and pervasive.

The relevant extract of the Adverse Opinion Paragraph and Basis for Adverse Opinion paragraph is as under:

Adverse Opinion
In our opinion, because of the omission of the information mentioned in the Basis for Adverse Opinion section of our report, the accompanying financial statements do not present fairly, the financial position of the entity as at March 31, 2023, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India.

Basis for Adverse Opinion

The financing arrangements of ABC Ltd. has expired and the amount outstanding was payable on March 31, 2023. The entity has been unable to conclude re-negotiations or obtain replacement financing and is considering filing for bankruptcy. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this fact.

Illustration 5: SA 705: Disclaimer of Opinion

PRT & Associates: MNO Ltd. is a power generating company having its plants in the north eastern states of the country. For the FY 2022-23, M/s PRT & Associates are the statutory auditors of the company. During the course of audit, the audit team was unable to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements. That is, the auditor was also unable to obtain audit evidence about the financial information of a joint venture investment (in XYZ Ltd. valued at ₹ 95 crores) that represents over 90% of the entity's net assets. What kind of opinion should the statutory auditors issue in such case?

Solution

M/s PRT & Associates are unable to obtain sufficient appropriate audit evidence about the financial information of a joint venture investment that represents over 90% of the entity's net assets. The possible effects of this inability



to obtain sufficient appropriate audit evidence are both material and pervasive to the consolidated financial statements.

Therefore, the statutory auditor should issue a **Disclaimer of Opinion**.

The relevant extract of the Disclaimer of Opinion Paragraph and Basis for Disclaimer of Opinion paragraph is as under: -

Disclaimer of Opinion

We do not express an opinion on the accompanying financial statements of MNO Ltd. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

The Group's investment in its joint venture XYZ Company is carried at ₹ 95 crores on the Group's consolidated balance sheet, which represents over 90% of the Group's net assets as at March 31, 2023. We were not allowed access to the management and the auditors of XYZ Company, including XYZ Company's auditors' audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of XYZ Company's assets that it controls jointly, its proportional share of XYZ Company's liabilities for which it is jointly responsible, its proportional share of XYZ's income and expenses for the year, (and the elements making up the consolidated statement of changes in equity) and the consolidated cash flow statement.

Illustration 6: SA 705: Qualified Opinion

Laksmi Vardhan Limited: CA Yash is the statutory auditor of Laksmi Vardhan Limited for the FY 2022-23. In respect of loans and advances of ₹ 55,00,000/- given to Sarvagya Private Limited, the Company has not furnished any agreement to CA Yash and in absence of the same, he is unable to verify the terms of repayment, chargeability of interest and other terms.

What kind of opinion should CA Yash give in such situation?

Solution

In the present case, with respect to loans and advances of ₹ 55,00,000/- given to Sarvagya Private Limited, the Company has not furnished any agreement to CA Yash. In absence of such agreement, CA Yash is unable to verify the terms of repayment, chargeability of interest and other terms. For an auditor, while verifying any loans and advances, one of the most important audit evidences is the loan agreement. Therefore, the absence of such document in the present case, tantamount to a material misstatement in the financial statements of the company. However, the inability of CA Yash to obtain such audit evidence is though material but not pervasive so as to require him to give a disclaimer of opinion.

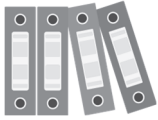
Thus, in the present case, CA Yash should give a **Qualified Opinion**.

The relevant extract of the Qualified Opinion Paragraph and Basis for Qualified Opinion paragraph is as under: -

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements of Laksmi Vardhan Limited 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 on 31.03.2023 and profit/ loss for the year ended on that date.

Basis for Qualified Opinion



The Company is unable to furnish the loan agreement with respect to loans and advances of ₹ 55,00,000/- given to Sarvagya Private Limited. Consequently, in absence of such agreement, we are unable to verify the terms of repayment, chargeability of interest and other terms.

Illustration 7: SA 705: Adverse Opinion

MSD Ltd.: In the financial year 2022-23, MSD Ltd. faced an extraordinary event (earthquake), which destroyed a lot of business activity of the company. These circumstances indicate material uncertainty on the company's ability to continue as going concern. Due to such event, it may not be possible for the company to realize its assets or pay off the liabilities during the regular course of its business. The financial statement and notes to the financial statements of the company do not disclose this fact. What kind of opinion should the statutory auditor of MSD Ltd. issue in such circumstances?

Solution

In the present case, there exists a material uncertainty that cast a significant doubt on the company's ability to continue as going concern and the same is not disclosed in the financial statements of MSD Ltd.

As such, the financial statements of MSD Ltd. for the FY 2022-23 are materially misstated and the effect of the misstatement is so material and pervasive on the financial statements that giving only a qualified opinion will be insufficient and therefore the statutory auditor of MSD Ltd. should issue an **Adverse Opinion**.

The relevant extract of the Adverse Opinion Paragraph and Basis for Adverse Opinion paragraph is as under:

Adverse Opinion
In our opinion, because of the omission of the information mentioned in the Basis for Adverse Opinion section of our report, the accompanying financial statements **do not present fairly**, the financial position of MSD Ltd. as at 31st March 2023, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India.

Basis for Adverse Opinion

MSD Ltd. has faced an extraordinary event (earthquake), which destroyed a lot of business activity of the company. Due to such event, it may not be possible for the company to realize its assets or pay off the liabilities during the regular course of its business. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statement and notes to the financial statements of the company do not disclose this fact.

Illustration 8: SA 705: Disclaimer of Opinion

PQR Ltd.: CA Abhimanyu is the statutory auditor of PQR Ltd. for the FY 2022-23. During the course of audit CA Abhimanyu noticed the following: -

- (1) With respect to the debtors amounting to ₹ 150 crores, no balance confirmation was received by the audit team. Further, there have been defaults on the payment obligations by debtors on the due dates during the year under audit. The Company has created a provision for doubtful debts to the tune of ₹ 25 Cr. during the year under audit. The Company has stated that the provision is based on receivables which are older than 36 months, which according to the audit team is inadequate and as such the audit team is unable to ascertain the carrying value of trade receivables.
- (2) Further, in respect of Inventories (which constitutes 40% of the total assets of the company), during the reporting period, the management has not undertaken physical verification of inventories at periodic intervals.



Also, the Company has not maintained adequate inventory records at the factory. The audit team was unable to undertake the physical inventory count as such the value of inventory could not be verified.

Under the above circumstances what kind of opinion should CA Abhimanyu give?

Solution

In the present case, CA Abhimanyu is unable to obtain sufficient and appropriate audit evidence with respect to the following: -

- (1) The balance confirmation with respect to debtors amounting to ₹ 150 crores is not available. Further there has been default in payment by the debtors and the provision so made is not adequate. The audit team is also unable ascertain the carrying value of trade receivables.
- (2) With respect to 40% of the company's inventory, neither the physical verification has been done by the management nor are adequate inventory records maintained. The audit team is also unable to undertake the physical inventory count as such the value of inventory could not be verified.

In the above 2 circumstances the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

Thus, CA Abhimanyu should give a **Disclaimer of Opinion**.

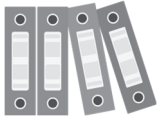
The relevant extract of the Disclaimer of Opinion Paragraph and Basis for Disclaimer of Opinion paragraph is as under: -

Disclaimer of Opinion

We do not express an opinion on the accompanying financial statements of PQR Ltd. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

We are unable to obtain balance confirmation with respect to the debtors amounting to ₹ 150 crores. Further, there have been defaults on the payment obligations by debtors on the due dates during the year under audit. The Company has created a provision for doubtful debts to the tune of ₹25 Cr. during the year under audit which is inadequate in the circumstances of the company. The carrying value of trade receivables could not be ascertained. Further, in respect of Inventories (which constitutes 40% of the total assets of the company), during the reporting period, the management has not undertaken physical verification of inventories at periodic intervals. Also, the Company has not maintained adequate inventory records at the factory. We were unable to undertake the physical inventory count and as such the value of inventory could not be verified.

**Illustration 9: SA 706: Emphasis of Matter Paragraph & Other Matter Paragraph (EMP/OMP)**

BDS Ltd: In respect of the audit of BDS Ltd., the statutory auditor of the company noticed some matters. The statutory auditor wants to draw the user's attention towards such matters, though his opinion is not modified in respect of such matters. Draft the relevant paragraphs of the audit report for the following matters: -

- (i) The company has disclosed in Note 27 about its plan to resume its construction activities with respect to one of its thermal power projects. The activity of such power plant was suspended in the FY 2020-21. The thermal power project comprises of the plant and equipment amounting to ₹ 5.95 crore and capital work in progress of ₹ 147.50 crore.
- (ii) The financial statements of 5 branches are included in the Standalone Financial Statements of BDS Ltd. whose financial statements reflect total assets of ₹ 90 crores as at 31.03.2023 and total revenue from operations of ₹ 40 crores for the year ended on that date. The financial statements of these branches have been audited by the branch auditors.

Solution**Emphasis of Matter**

We draw attention to Note 27 regarding the plans of the Company to resume construction/developmental activities of a thermal power project. The carrying amounts related to the project as at 31st March, 2023 comprise of plant and equipment of ₹ 5.95 crore and capital work in progress of ₹ 147.50 crore.

Our opinion is not modified in respect of this matter.

Other Matter

We did not audit the financial statements of 5 branches included in the Standalone Financial Statements of the company whose financial statements reflect total assets of ₹ 90 crores as at 31.03.2023 and total revenue from operations of ₹ 40 crores for the year ended on that date. The financial statements of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion is based solely on the report of the branch auditors.

Our opinion is not modified in respect of this matter.