

4. AUDIT CONCLUSION & REPORTING

KEEP THESE POINTS IN MIND

DEAR STUDENTS,

- 1) THIS IS A VERY IMPORTANT SUBJECT FOR YOUR EXAMS & CAREER. FOCUS WELL.
- 2) YOU CAN'T QUALIFY THIS SUBJECT JUST BY MUGGING UP. IN THE EXAM THE QUESTIONS ARE GENERALLY TRICKY AND WILL MAKE THE STUDENT GET CONFUSED ABOUT WHICH ANSWER TO BE WRITTEN. THE ONLY OPTION IS TO LISTEN TO THE CLASSES WITH UTMOST ATTENTION AND TRY TO REVISE THE SUBJECT AS MUCH AS POSSIBLE.
- 3) WE DON'T HAVE A LUXURIOUS TIME, SO THAT FACULTY CAN DICTATE THE RUNNING NOTES. YOU NEED TO MAINTAIN THE SAME ON YOUR OWN.
- 4) TRUE OR FALSE STATEMENTS AND MCQs WILL BE PROVIDED IN A SEPARATE MATERIAL. AFTER COMPLETION OF EACH CHAPTER, STUDENTS SHALL PREPARE THEM ON THEIR OWN.
- 5) WE HAVE CLASSIFIED THE CONCEPT QUESTIONS INTO 3 CATEGORIES & TYK QUESTIONS INTO 2 CATEGORIES:
 - a) CONCEPT QUESTIONS (CRD) & TYK (CRD): STUDENTS NEED TO NOTE THE ANSWERS EXPLAINED BY THE FACULTY IN THE CLASSROOM. WE WILL NOT PROVIDE THESE SOLUTIONS FOR ANY REASON.
 - b) CONCEPT QUESTIONS (SP) & TYK (SP): STUDENTS NEED TO SOLVE THEM ON THEIR OWN. WE WILL PROVIDE THESE SOLUTIONS IN WORKBOOK SOLUTIONS.
 - c) ADVANCED CONCEPT QUESTIONS (CRD): STUDENTS NEED TO NOTE BOTH QUESTIONS AND ANSWERS EXPLAINED BY THE FACULTY IN THE CLASSROOM. WE WILL NOT PROVIDE THESE QUESTIONS AND ANSWERS FOR ANY REASON.
- 6) SELF-LEARNING IS MANDATORY TO CRACK THIS SUBJECT. AS AND WHEN YOUR FACULTY TEACHES A TOPIC, TRY TO ANSWER CORRESPONDING CONCEPT QUESTIONS FOR SP, PRACTICAL QUESTIONS FOR SELF-PRACTICE & TYK FOR SELF-PRACTICE ON YOUR OWN.
- 7) CONTENT GIVEN UNDER THE HEADING ADDITIONAL EXPLANATION:
 - a) IF IT IS SUFFICIENT TO UNDERSTAND AND NOT REQUIRED TO REPRODUCE THE SAME IN THE EXAMS THEN IT IS GIVEN IN 'ITALICS'.
 - b) IF IT IS REQUIRED FOR THE STUDENTS TO READ, UNDERSTAND AND REPRODUCE THEN WE HAVE NOT USED ANY 'ITALICS'. IN INTERNAL AS WELL AS PUBLIC EXAMS YOU CAN EXPECT QUESTIONS ON THIS CONTENT.

LEARNING OBJECTIVES

After studying this chapter, you would be able to understand:

- 1) The objectives of the auditor as per SA 700 (Revised), "Forming an Opinion and Reporting on Financial Statements." Also, whether the auditor has obtained reasonable assurance. Understand the evaluation by the auditor and Qualitative Aspects of the Entity's Accounting Practices. Elements of Auditor's report.
- 2) The basics of Standard on Auditing (SA) 705 "Modifications to the Opinion in the Independent Auditor's Report".
- 3) The basics of SA 701- "Communicating Key Audit Matters in the Independent Auditor's Report".

- 4) The Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report as per SA 706.
- 5) SA 710 - "Comparative Information- Corresponding figures and Comparative financial statements".
- 6) The basics of SA 600 – "Using the work of Another Auditor".
- 7) SA 299 – "Joint Audit of Financial Statements".
- 8) Reporting requirements under the Companies Act, 2013
- 9) Companies (Auditor's Report) Order, 2020.
- 10) Practicality of above concepts by studying through examples and case studies.
- 11) SA 510- Initial Audit engagements - Opening Balances

CHAPTER OVERVIEW

DIVISION	TOPIC
1)	THEORY FOR CLASSROOM DISCUSSION (CRD)
2)	THEORY FOR SELF STUDY
3)	TEST YOUR KNOWLEDGE (CRD)
4)	TEST YOUR KNOWLEDGE (SELF STUDY)
5)	IDENTICAL QUESTIONS (SELF STUDY)
6)	IMPORTANT TECHNICAL TERMS (SELF STUDY)
7)	CONCEPTS THAT ARE RESHUFFLED

DIVISION 1: THEORY FOR CLASSROOM DISCUSSION (CRD)

SA 700 FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

Q.No.1. Briefly Explain About Forming of Opinion & Reporting on Financial Statements.

- 1) SA 700 (Revised) - "Forming an Opinion and Reporting on Financial Statements", deals with the auditor's responsibility to form an opinion on the financial statements.
- 2) It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.
- 3) The requirements of this SA are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally and the need to increase the value of auditor reporting by making the information provided in the auditor's report more relevant to users.
- 4) This SA promotes consistency in the auditor's report but recognizes the need for flexibility to accommodate particular circumstances of individual jurisdictions.
- 5) Consistency in the auditor's report, when the audit has been conducted in accordance with SAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards.
- 6) It also helps to promote the user's understanding and to identify unusual circumstances when they occur.

CONCEPT QUESTION (CRD):

- 1) SA promotes consistency in the auditor's report but doesn't recognize the need for flexibility to accommodate particular circumstances of individual jurisdictions. Correct/Incorrect. (NON-ICAI SOURCES)

CONCEPT QUESTION (SP):

- 1) SA-700 deals with modification to the opinion in the independent Auditor's Report. (M16- RTP)

Q.No.2. What are the objectives of the Auditor Under SA 700?

The objectives of the auditor as per SA 700 (Revised) are:

- 1) To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained.
- and
- 2) To express clearly that opinion through a written report.

Q.No.3. What factors should the auditor consider when concluding whether reasonable assurance has been obtained about the absence of material misstatements in the financial statements?

(Or)

What is the auditor's responsibility regarding the formation of an opinion on financial statements?
(L TO L)

- 1) The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- 2) In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.
- 3) That conclusion shall take into account:
- a) Whether sufficient appropriate audit evidence has been obtained.
 - b) Whether uncorrected misstatements are material, individually or in aggregate.
 - c) The evaluations.

Q.No.4. What are the aspects that auditor need to evaluate whether financial statements are prepared as per AFRF (applicable financial reporting framework)?

EVALUATIONS BY THE AUDITOR: The auditor shall evaluate whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework.

This evaluation shall include consideration of the

- 1) Qualitative aspects of the entity's accounting practice, Including the below
- 2) Specific Evaluations to be made by Auditor.

1) **QUALITATIVE ASPECTS OF ENTITIES ACCOUNTING PRACTICES:**

- a) Management makes a number of judgements about the amounts and disclosures in the financial statements.
- b) SA 260 (Revised) contains a discussion of the qualitative aspects of accounting practices.
- c) In considering the qualitative aspects of the entity's accounting practices,
 - i) The auditor may become aware of possible bias in management's judgements.

ii) The auditor may conclude that the cumulative effect of lack of neutrality, together with the effect of uncorrected misstatements, causes the financial statements as a whole to be materially misstated.

iii) Indicators of a lack of neutrality include: The selective correction of misstatements brought to management's attention during the audit.

Example: Correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings.

d) **SA 540 addresses possible management bias in making accounting estimates.**

i) Indicators of possible management bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates.

ii) They may, however, affect the auditor's evaluation of whether the financial statements as a whole are free from material misstatement.

2) **SPECIFIC EVALUATIONS WHILE FORMING OPINION:** The auditor shall evaluate whether:

a) The financial statements adequately disclose the significant accounting policies selected and applied.

b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate.

c) The accounting estimates made by management are reasonable.

d) The information presented in the financial statements is relevant, reliable, comparable, and understandable.

e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and

f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

ADDITIONAL EXPLANATION (SP): An overview of specific evaluations by the auditor

Checkbox	Specific evaluations by the auditor
✓	Selected and applied significant accounting policies are adequately disclosed.
✓	Accounting policies are consistent with applicable financial reporting framework.
✓	Accounting estimates by management are reasonable.
✓	Information in financial statement is relevant, reliable, comparable and understandable.
✓	Disclosures in financial statements are adequate to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements.
✓	Terminology used in financial statements is appropriate.

Q.No.5. What are the Different Types of Auditor's opinion. Explain?

(L TO L)

1) **UNMODIFIED OPINION:** The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

ADDITIONAL EXPLANATION (SP): Auditor Concludes that Financial Statements are Prepared as per A.F.R.F.W. Only When he has Sufficient and Appropriate Audit Evidence That Financial statements are Free From Material Misstatement

2) **MODIFIED OPINION:**

If the auditor:

- Concludes that based on the audit evidence obtained the financial statements as a whole are not free from material misstatements.
- Is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as whole are free from material misstatement.

The auditor shall modify the opinion in the auditor's report in accordance with SA 705.

ADDITIONAL EXPLANATION (CRD): When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the wording of the modification.

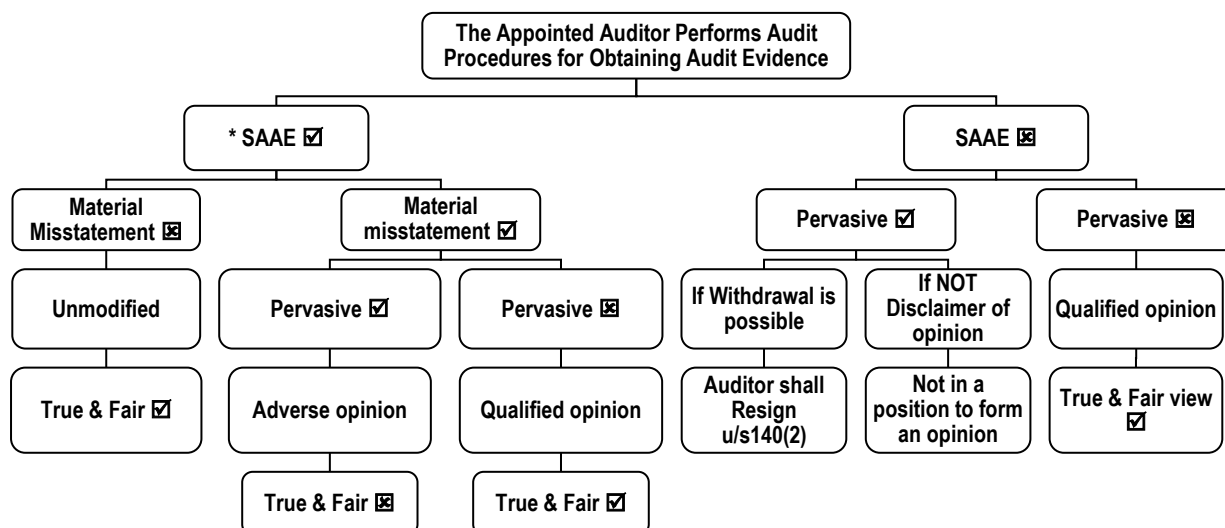
3) **Modified Opinion is of three Types:**

- Qualified Opinion.
- Adverse Opinion.
- Disclaimer Of Opinion.

ADDITIONAL EXPLANATION (CRD):

BELOW TABLE SHOWS DIFFERENT TYPES OF OPINIONS BASED IN DIFFERENT SITUATIONS

Situation	MMS exist?	Pervasive?	Opinion
Sufficient and appropriate evidence OBTAINED	No	NA	Unqualified Opinion
	Yes	No	Qualified Opinion
	Yes	Yes	Adverse Opinion
Situation	Is it Material?	Is the possible effect Pervasive?	Opinion
Sufficient and appropriate evidence NOT OBTAINED	No	NA	Unqualified Opinion
	Yes	No	Qualified Opinion
	Yes	Yes	Disclaimer Opinion



CONCEPT QUESTIONS (SP):

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

Q.No.6. List out the Contents/ Elements of Auditor's Report as per SA 700?

The following are the contents of the Audit Report.

• Title
• Addressee
• Auditor's opinion / Adverse Opinion / Qualified Opinion / Disclaimer of Opinion
• Basis of opinion / Adverse Opinion / Qualified Opinion / Disclaimer of Opinion
• Going Concern (Material uncertainty About going Concern Under SA 570)
• Key Audit Matters (SA 701)
• Responsibilities for the Financial Statements
• Auditor's Responsibilities for the Audit of the Financial Statements
• Location of the Description of the auditor's Responsibilities
• Other Reporting Responsibilities (offering Flexibility of Report)
• Signature of the Auditor
• Place of Signature
• Date of the Auditor's Report
• UDIN (Unique document Identification number)

Q.No.7. Explain in Detail Elements / Contents of Auditor's Report?**(L TO L)**

- 1) **Title:** The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor.
- For example,** "Independent Auditor's Report," distinguishes the independent auditor's report from reports issued by others.
- 2) **Addressee:**
- The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement. Law, regulation or the terms of the engagement may specify to whom the auditor's report is to be addressed.
 - The auditor's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being audited.
 - In case of a company, the report is addressed to the shareholders of the company.

- 3) **AUDITOR'S OPINION:** The first section of the auditor's report shall include the auditor's opinion and shall have the heading "Opinion."

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

- a) Identify the entity whose financial statements have been audited.
 - b) State that the financial statements have been audited.
 - c) Identify the title of each statement comprising the financial statements.
 - d) Refer to the notes, including the summary of significant accounting policies; and
 - e) Specify the date of, or period covered by, each financial statement comprising the financial statements.
- 4) **BASIS FOR OPINION:** The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that:
- a) States that the audit was conducted in accordance with Standards on Auditing.
 - b) Refers to the section of the auditor's report that describes the auditor's responsibilities under the SAs.
 - c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.
 - d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

ADDITIONAL EXPLANATION (CRD)

- 1) Reasons for modifications if any to the auditor's opinion shall be described in the Basis for Opinion
 - 2) Basis for opinion section provides important context about the auditor's opinion.
- 5) **GOING CONCERN:** Where applicable, the auditor shall report in accordance with SA 570 (Revised).
- a) Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgement, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.
 - b) A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgement, appropriate disclosure of the nature and implications of the uncertainty is necessary for:
 - In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or
 - In the case of a compliance framework, the financial statements not to be misleading.

ADDITIONAL EXPLANATION (SP)

- 1) *Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future.*
- 2) *General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations or has no realistic alternative but to do so.*
- 3) *When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.*
- 4) *The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and shall conclude on whether the same is appropriate.*

- 6) **KEY AUDIT MATTERS:** For audits of complete sets of general-purpose financial statements of listed entities, or otherwise required by law or regulation or decides to communicate key audit matters the auditor shall do so in accordance with SA 701.

For Example: Entities characterized in such law or regulation as public interest entities.

The auditor may also decide to communicate key audit matters for other entities, including those that may be of significant public interest, for example because they have a large number and wide range of stakeholders and considering the nature and size of the business.

Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charitable institutions.

- 7) **RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS:** Will Be Discussed in Further Question.

- 8) **Auditor's Responsibilities for the Audit of Financial Statements.** Will Be Covered in Q. No 4 in Theory for Self-Study

- 9) **LOCATION OF THE DESCRIPTION OF THE AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS:** The description of the auditor's responsibilities for the audit of the financial statements shall be included:

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

- 10) **OTHER REPORTING RESPONSIBILITIES:**

- If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the SAs,
- These other reporting responsibilities shall be addressed in a separate section in the auditor's report with a heading titled. **"Report on Other Legal and Regulatory Requirements"** or
- Otherwise, the other reporting responsibilities may be presented in the same section as the related report elements required by the SAs.
- If other reporting responsibilities are presented in the same section as the related report elements required by the SAs, the auditor's report shall clearly differentiate the other reporting responsibilities from the reporting that is required by the SAs.
- If the auditor's report contains a separate section that addresses other reporting responsibilities, the requirements stated above shall be included under a section with a heading "Report on the Audit of the Financial Statements." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Audit of the Financial Statements."

- 11) **SIGNATURE OF THE AUDITOR:** The auditor's report shall be signed.

- The report is signed by the auditor (i.e., the engagement partner) in his personal name.
- Where the firm is appointed as the auditor, the report is signed in the personal name of the auditor and in the name of the audit firm.
- The partner/proprietor signing the audit report also needs to mention the membership number assigned by the Institute of Chartered Accountants of India. They also include the registration number of the firm, wherever applicable, as allotted by ICAI, in the audit reports signed by them.

- 12) **PLACE OF SIGNATURE:** The auditor's report shall name specific location, which is ordinarily the city where the audit report is signed.

13) DATE OF THE AUDITOR'S REPORT:

- a) The date of the auditor's report informs the user of the auditor's report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date.
- b) The auditor's responsibility for events and transactions after the date of the auditor's report is addressed in SA 560.
- c) The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that:
 - All the statements that comprise the financial statements, including the related notes, have been prepared; and
 - Those with the recognized authority have asserted that they have taken responsibility for those financial statements.

14) UDIN (Unique Document Identification Number): Refer Q.No.**CONCEPT QUESTIONS (CRD):**

- 2) M/s Smart & Associates are the statutory auditors of Hotmeals Ltd. for the FY 2021- 22. How will the auditor address the audit report issued on the financial statements for the FY 2021-22? Also give a title to the report. (NEW SM-EX)
- 3) Richa International is a partnership firm dealing in export of blankets. The partners of the firm are Richa and Ashish. Explain how the statutory auditor of the firm will address the auditor's report. (NEW SM-EX)
- 4) M/s Amitabh & Associates are the statutory auditors of Ringston Ltd. which is a company engaged in the business of manufacture of pen drives. The auditor has started drafting the audit report for the FY 2021-22. CA Amitabh, the engagement partner is of the view that the financial statements of Ringston Ltd. represent a true and fair view. Give the draft of the opinion paragraph of the audit report. (NEW SM-EX)
- 5) M/s Kite Rite & Associates are the statutory auditors of Prime Deluxe Limited, for the FY 2021-22. At the time of finalising the audit report, one of the engagement team members, Mr. Robin, asked the engagement partner, CA Kite as to what all should be included in the Basis of Opinion Paragraph. The engagement partner CA Kite explained the team in detail and asked Mr. Robin to draft such section for the auditor's report of Prime Deluxe Limited. Help Mr. Robin to draft the Basis for opinion section. (NEW SM-EX)
- 6) Diamond Shine Ltd. is a company engaged in the manufacture of detergent. M/s Bright & Associates are the statutory auditors of the company. Explain how the paragraph related to the management's responsibility will come in the auditor's report. (NEW SM-EX)
- 7) M/s Ajay Vijay & Associates are the statutory auditors of Sarovar Ltd. for the FY 2021- 22. The company is engaged in the business of manufacture of water bottles. At the time of finalising the auditor's report, one of the audit team members asked CA Ajay, the engagement partner to advise as to how the auditor's responsibilities can be shown in an appendix to the auditor's report. Draft the auditor's responsibility paragraph so as to advise the audit team member. (NEW SM-EX)
- 8) CA. Maya Memani has conducted audit of a company. She has asked Sana, a CA student undergoing training in her office, to prepare draft audit report. Sana was part of engagement team conducting the audit. She has been further told to prepare draft report expressing unmodified opinion. After drafting para comprising unmodified opinion, Sana feels no need to provide basis for opinion. Discuss why her thinking is not proper. (NEW SM-TYK)

ADVANCED CONCEPT QUESTION:

- 1) FACULTY SHALL DISCUSS 1 CQ HERE.

CONCEPT QUESTIONS (SP):

- 3) M/s S & Associates are the statutory auditors of Real Ltd., a company engaged in the business of manufacturing of garments. The auditor has completed the audit and is in the process of forming an opinion on the financial statements for the FY 2020- 21. CA. K, the engagement partner, wants to conclude that whether financial statements as a whole are free from material misstatements, whether due to fraud or error. What factors he should consider to reach the conclusions?

(DEC21-3M)

Q.No.8. Write a Short Note on UDIN number.**UDIN (Unique Document Identification Number):**

- It was noticed that financial documents/ certificates attested by third person misrepresenting themselves as CA Members were misleading the Authorities and Stakeholders.
- ICAI also received number of complaints of signatures of CAs being forged by non CAs.
- To curb the malpractices, the Professional Development Committee of ICAI implemented in phased manner an innovative concept of UDIN i.e., Unique Document Identification Number. All Certificates were made mandatory with effect from 1st February 2019 as per the Council decision taken at its 379th Meeting held on 17th – 18th December 2018.
- Chartered Accountants having full-time Certificate of Practice can register on UDIN Portal and generate UDIN by registering the certificates attested/certified by them.
- Accordingly, an auditor is required to mention the UDIN with respect to each audit report being signed by him, along with his membership number while signing an audit report.

CONCEPT QUESTION (CRD):

- 9) M/s TUV & Associates are the statutory auditors of Venus Ltd. for the FY 2021-22. At the time of finalising the auditor's report, one of the audit team members asked the engagement partner, CA Tarun, to explain as to how the auditor's report will be signed. Help CA Tarun in explaining the same.

The following is the correct way of signing an audit report.

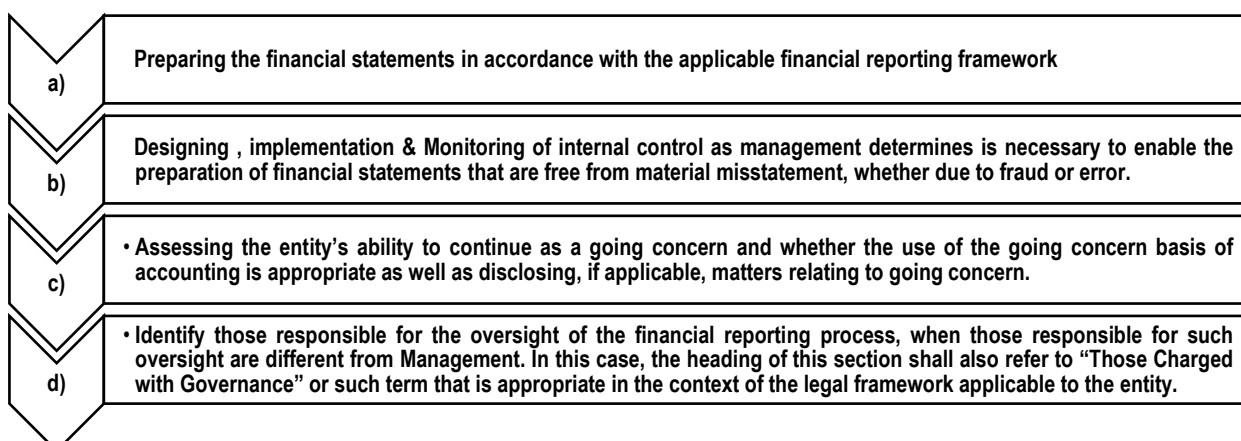
(NEW SM-EX)

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

Q.No.9. Write about Responsibility of Management for Financial Statements.

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

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



SA 705 MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

This SA deals with the auditor's responsibility to issue an appropriate report in circumstances when, the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

This SA also deals with how the form and content of the auditor's report is affected when the auditor expresses a modified opinion.

Q.No.10. What are the Circumstances when a Modification to the Auditor's opinion is Required? (L TO L)

The auditor shall modify the opinion in the auditor's report in the following circumstances:

- 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.

Q.No.11. Explain in detail different types of Modified Opinion? (L TO L)

There are three types of modified opinions, namely.

- 1) A qualified opinion
- 2) An adverse opinion
- 3) A disclaimer of opinion

- 1) **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.

- 2) **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.

- 3) **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.

ADDITIONAL EXPLANATION (SP):

Inability to obtain sufficient appropriate audit evidence, such as:

- 1) *Inability to observe inventory.*
- 2) *Inability to confirm receivables.*

- 3) *Inability to obtain audited financial statements of a consolidated investee.*
- 4) *Restrictions on the use of auditing procedures*
- 5) *Inadequacy of accounting records*
- 6) *Refusal of client's attorney to respond to inquiry.*

CONCEPT QUESTIONS (CRD):

- 11) Super Duper Ltd. is a company engaged in the manufacture of office furniture. M/s Young Old & Associates are the statutory auditors of the company for the FY 2021- 22. During the year under audit, the engagement partner CA Young noticed that the company has not bifurcated its loans into long term and short term. CA Young understands that such misstatement is not pervasive though the same is material. Explain the type of opinion that should be given by M/s Young Old & Associates in this case. (NEW SM-EX)
- 12) M/s Taj Raj & Associates are the statutory auditors of Porex Ltd. engaged in the manufacture of premium watches, for the FY 2021-22. During the course of audit, CA Taj, the engagement partner found that the stocks and debtors of the company constituting about 80% of the total assets of the company are not realisable. Further, the cashier of the company has committed a fraud during the year under audit. Both the facts are not reflected in the financial statements for the year ending 31.03.2022. Accordingly, CA Taj is of the view that the impact of both the situations on the financial statements is material and pervasive and thus, the financial statements represent a distorted view of the state of affairs of the company. Explain the reporting requirements of CA Taj. (NEW SM-EX)
- 13) Delightful Ltd. is a company engaged in the production of smiley balls. During the FY 2021-22 the company transferred its accounts to computerised system (SAP) from manual system of accounts. Since the employees of the company were not well versed with the SAP system, there were many errors in the accounting during the transition period. As such the statutory auditors of the company were not able to extract correct data and reports from the system. Such data was not available manually also. Further, the employees and the management of the company were not supportive in providing the requisite information to the audit team. Explain the kind of audit report that the statutory auditor of the company should issue in this case. (NEW SM-EX)
- 14) Under which of the following circumstances would a disclaimer of opinion not be appropriate?
 - a) The auditor is unable to determine the amounts associated with an employee fraud scheme.
 - b) Management does not provide reasonable justification for a change in accounting principle.
 - c) The client refuses to permit the auditor to confirm certain accounts receivable or apply alternative procedures to verify their balances.
 - d) The chief executive officer is unwilling to sign the management representation letter.

ADVANCED CONCEPT QUESTIONS: FACULTY SHALL DISCUSS 3 CQ HERE.

Q.No.12. What are the key considerations that influence the auditor's decision on the type of MODIFIED OPINION to issue.

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

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

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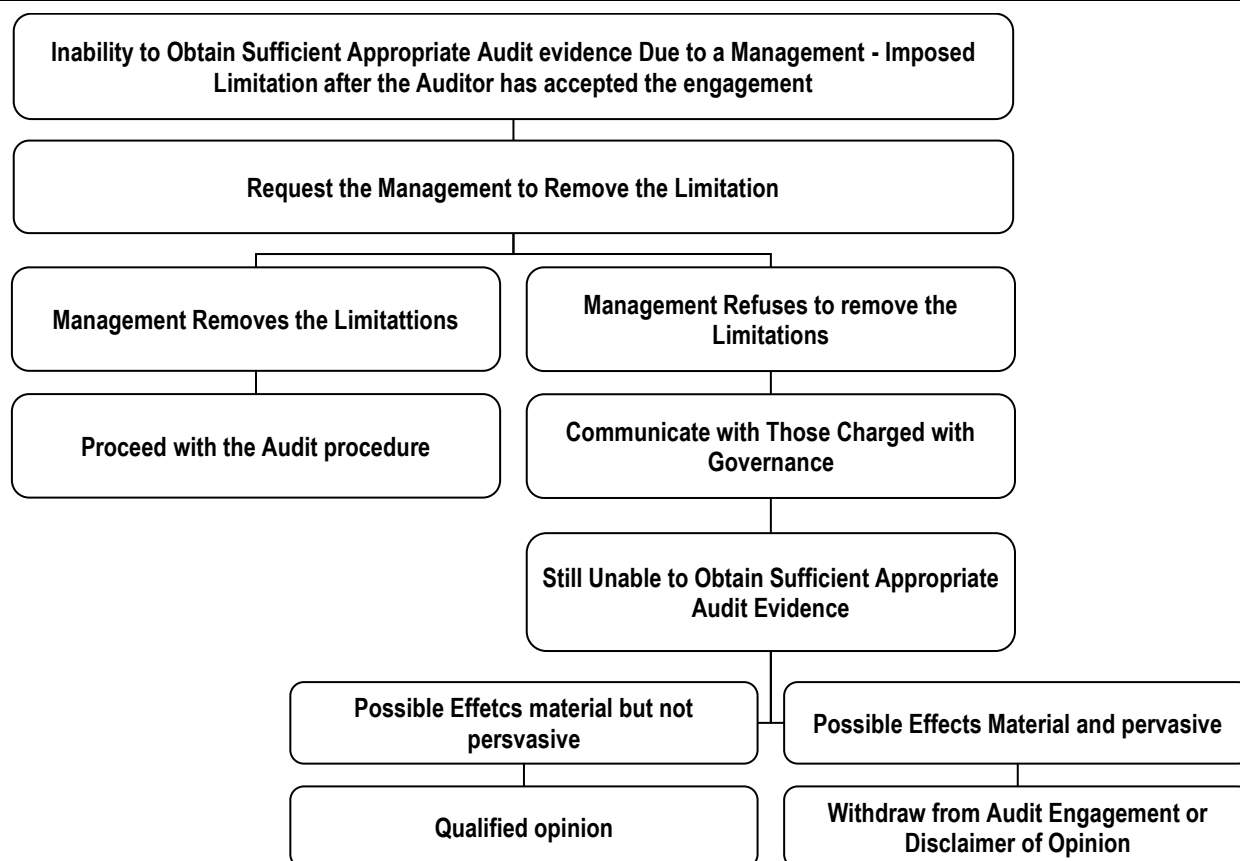
ADDITIONAL EXPLANATION (SP):

Nature of Matter Giving Rise to the Modification	Auditor's Judgement about the Pervasiveness of the Effects or Possible Effects on the Financial Statements	
	Material but not Pervasive	Material and Pervasive
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Q.No.13. Explain the consequences of an inability to obtain sufficient appropriate audit evidence (SAAE) due to a management-imposed limitation after the auditor has accepted the engagement. (L TO L)

- a) **REQUEST THAT MANAGEMENT REMOVE THE LIMITATION:** 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.
- b) **MANAGEMENT REMOVES THE LIMITATION:** Proceed with the audit procedures in usual manner.
- c) **MANAGEMENT REFUSES TO REMOVE THE LIMITATION:**
- If management refuses to remove the limitation referred above, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity.
 - Determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
 - If the auditor is unable to obtain sufficient appropriate audit evidence.
 - 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.
 - 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.
 - Withdraw from the audit, where practicable and possible under applicable law or regulation
 - If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements.
- d) **COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE:** When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the wording of the modification.

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**CONCEPT QUESTIONS (CRD):**

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

Assuming it is not possible to withdraw from engagement, what type of opinion should be expressed by auditor?

(NEW SM-TYK)

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

CONCEPT QUESTIONS (SP):

- 4) Pervasive is a term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are detected by obtaining sufficient appropriate audit evidence. Correct/Incorrect. (MAY22 -2M)

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SA 701: COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT

Q.No.14. Write the Meaning & Objective of Communicating Key Audit Matters.

- 1) **DEFINITION OF KEY AUDIT MATTER:** The matters which in auditor's Judgment are of most significant in the audit of the financial statements of the current period and these are selected from the matters communicated with those charged with governance.

ADDITIONAL EXPLANATION (CRD): Further the KAM shall not pertain to previous years audit matters.

- 2) **PURPOSE / OBJECTIVE:**

- a) To enhance the communicative value of auditor's report by providing greater transparency about the audit that was performed.
- b) To provide additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period.
- c) To assist intended users in understanding the entity and areas of significant management judgement in the audited financial statements.

ADVANCED CONCEPT QUESTIONS: FACULTY SHALL DISCUSS 2 CQ HERE.

CONCEPT QUESTIONS (SP):

- 5) In Mondi Limited South African Company auditor Deloitte has specified Capitalization of Fixed Asset as it can be Considered as Key audit matter or not?

Q.No.15. Explain the Applicability & Manner of reporting of key Audit Matters in audit. (L TO L)

- 1) **APPLICABILITY/ CRITERIA:** The auditor shall communicate the key audit matters in the following circumstances:
- a) For audits of complete sets of general-purpose financial statements of listed entities.
 - b) Law or regulation may require communication of key audit matters for audits of entities other than listed entities.
 - c) The auditor may also decide to communicate key audit matters for other entities, including those that may be of significant public interest,
for example, because they have a large number and wide range of stakeholders and considering the nature and size of the business.
- 2) **MANNER OF PRESENTATION:** The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters". The introductory language in this section of the auditor's report shall state that:
- a) **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
 - b) **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.**

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Q.No.16. What are the Matters to be Considered for determining key Audit Matters?

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:

- a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315.
- b) Significant auditor judgements relating to areas in the financial statements that involved significant management judgement, including accounting estimates that have been identified as having high estimation uncertainty.
- c) The effect on the audit of significant events or transactions that occurred during the period.

The auditor shall determine which of the matters determined, as stated above, were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters.

Q.No.17. Communicating Key Audit Matters Is Not A Substitute For various Matters. Explain (LTO L)

- 1) **NOT** a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make.
- 2) **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.
- 3) **NOT** a substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern; (will be discussed later in SA 570).
- 4) **NOT** a separate opinion on individual matters.

ADVANCED CONCEPT QUESTION: FACULTY SHALL DISCUSS 3 CQ HERE.

SA 706: EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS
Q.No.18. Briefly Explain Meaning & Objectives of Emphasis of Matter & Other Matters Paragraph As per SA 706. (L TO L)
1) DEFINITIONS:

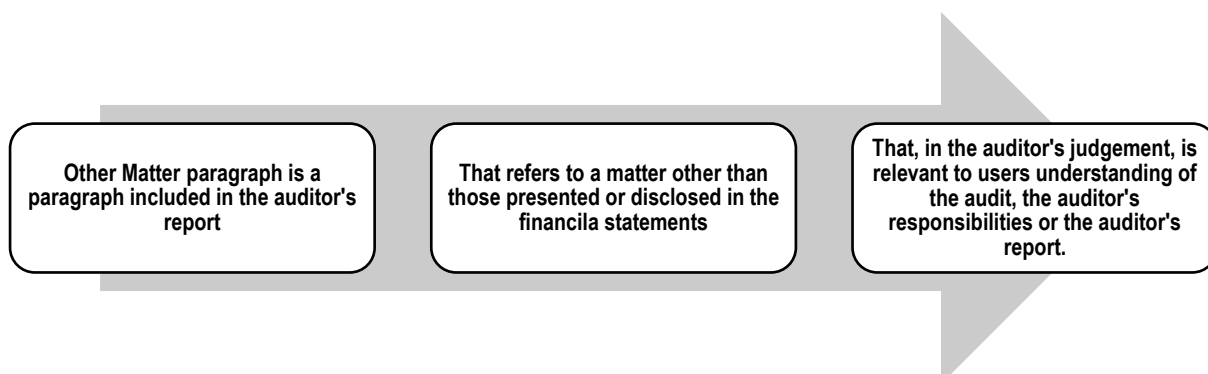
- a) **EMPHASIS OF MATTER:** Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements.

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 judgement, is of such importance that it is fundamental to users understanding of the financial statements.

- b) **OTHER MATTERS PARAGRAPH:** Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to user's understanding of the audit, the auditor's responsibilities or the auditor's report.



- 2) **OBJECTIVE OF THE AUDITOR 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 judgement 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.

Q.No.19. Explain the Criteria, When & How an Emphasis of Matter paragraph to be Reported in the Auditors report? (L TO L)

- 1) **CRITERIA TO BE FULLFIED:** 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 judgement, 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:
- a) The auditor would not be required to modify the opinion in accordance with SA 705 (Revised) as a result of the matter; and
- b) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.
- 2) **MANNER OF REPORTING (HOW TO REPORT):** When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:
- a) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter";
- b) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and
- c) Indicate that the auditor's opinion is not modified in respect of the matter emphasized.
- 3) **EXAMPLES OF WHEN IT IS USED:**
- a) An uncertainty relating to the future outcome of an exceptional litigation or regulatory action.
- b) A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

- c) A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report (Unusually important subsequent events).
- d) Significant related party transactions.
- e) Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.
- f) Conditions raising a substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time exist but have been alleviated by management's plans and adequately disclosed.

ADDITIONAL EXPLANATION (SP):

Examples of Emphasis of Matters which may not affect the Functioning of the Company are:

- 1) *When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation. (SA 210)*
- 2) *To alert users that the FS are prepared in accordance with a special purpose framework. (SA 800)*
- 3) *When facts become known to the auditor after the date of the auditor's report & the auditor provides a new or amended auditor's report. (SA 560)*
- 4) *On managerial remuneration which is subject to the approval of the CG.*
- 5) *Relating to accrual of a contractually receivable claim based on management estimate where the ultimate realisation could be different from the amount accrued.*
- 6) *On frauds that have been dealt with in the FS of the company & would not have any accounting effect on the FS.*

Q.No.20. Emphasis Of Matter Paragraph Is Not A Substitute For various Matters. Explain

An Emphasis of Matter paragraph is NOT A SUBSTITUTE for:

- a) Issuing auditors opinion in accordance with SA 700.
- b) A modified opinion in accordance with SA 705 (Revised) when required by the circumstances of a specific audit engagement.
- c) Disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; or
- d) Reporting in accordance with SA 570 (Revised) when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.

CONCEPT QUESTION (SP):

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

Q.No.21. Write about Other Matter Paragraphs in the Auditor's Report.

- 1) **CRITERIA FOR REPORTING:** If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an Other Matter paragraph in the auditor's report, provided:
 - a) This is not prohibited by law or regulation; and
 - b) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.
- 2) **SEPARATE SECTION FOR OTHER MATTER PARAGRAPH:** When the auditor includes an Other Matter paragraph in the auditor's report, the auditor shall include the paragraph within a separate section with the heading "Other Matter," or other appropriate heading.
- 3) **COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE:** If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, the auditor shall communicate with those charged with governance regarding this expectation and the wording of this paragraph.

ADVANCED CONCEPT QUESTIONS: FACULTY SHALL DISCUSS 1 CQ HERE.

ADDITIONAL EXPLANATION (CRD):

Paragraph Type	Emphasis-of-Matter	Other-Matter
Location Relative to Opinion Paragraph	Not specified	Not specified
Material justified change in accounting principle	✓	
Special purpose framework	✓	
Change in audit opinion	✓	OR ✓
Restrict use of report		✓
Prior financial statements audited by prior auditor and prior auditor's report is not presented		✓
Comparative financial statements where the current year is audited, and prior period is not audited		✓

ADDITIONAL EXPLANATION (SP):**Examples of when an auditor issues Other Matter Paragraph:**

- 1) Reason why auditor is unable to resign from the engagement even though there is a limitation on scope.
- 2) Law, regulation or generally accepted practice in a jurisdiction may require or permit the auditor to elaborate on matters that provide further explanation.
- 3) Auditor has been asked to perform & report on additional specified procedures, or to express an opinion on specific matters.
- 4) Another set of FS has been prepared by the same entity in accordance with another general-purpose framework & that the auditor has issued a report on those FS.
- 5) Auditor's report is intended solely for the intended users & should not be distributed to or used by other parties.
- 6) Law or regulation may require the auditor to communicate about planning & scoping matters in the auditor's report, or the auditor may consider it necessary to communicate about such matters in an Other Matter paragraph. (SA 260)

SA 510: INITIAL AUDIT ENGAGEMENTS - OPENING BALANCES

Q.No.22. What is the Applicability & Objectives of Auditor with respect to SA 510- Initial Audit Engagements? (L TO L)

- 1) **Applicability:** This Standard on Auditing (SA) deals with the auditor's responsibilities relating to opening balances when conducting an initial audit engagement.
Initial audit engagement - An engagement in which either:
 - a) The financial statements for the prior period were not audited; or
 - b) The financial statements for the prior period were audited by a predecessor auditor.
- 2) **Objectives:** In conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether:
 - a) Opening balances contain misstatements that materially affect the current period's financial statements; and
 - b) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

ADDITIONAL EXPLANATION (CRD):

- 1) **INITIAL AUDIT ENGAGEMENT:** Refers to an engagement in which either:
 - a) The financial statements for the prior period were not audited; or
 - b) The financial statements for the prior period were audited by a predecessor auditor.
- 2) **OPENING BALANCES:** Means those account balances that exist at the beginning of the period.
Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period.
Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.
- 3) **PREDECESSOR AUDITOR:** The auditor from a different audit firm, who audited the financial statements of an entity in the prior period and who has been replaced by the current auditor.

CONCEPT QUESTIONS (CRD):

- 17) It is no part of subsequent auditor's duty to verify opening balances of Ledger accounts of current years, on the basis of Balance Sheet audited by Previous Auditor. (N14-RTP)
- 18) If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall include an Emphasis of Matter paragraph in the auditor's report. (N14)
- 19) M/s PQR & associates are the statutory auditors of TUV Ltd. for the FY 202021 -. They have been appointed as statutory auditors of TUV Ltd. for the first time. What is the objective of the engagement partner in terms of SA 510? OR
Mr. T., a Chartered Accountant, was first time appointed the Auditor of XYZ Ltd. Mr. T. carried out the audit procedure for verifying the opening balances only, but not the previous year's accounting policies as it is not needed. (M07-6M)
- 20) From the list Given Below determine the Events Would an auditor issue a report that omits any reference to Consistency.
 - a) A Change in the Method of Accounting for Inventory
 - b) A Change from an Accounting Principle that is not generally accepted to one that is generally accepted.
 - c) A Change in the useful life Used to calculate the Provision for depreciation expense.
 - d) Management's lack of reasonable Justification for a Change in Accounting Principle.

ADVANCED CONCEPT QUESTIONS: FACULTY SHALL DISCUSS 1 CQ HERE.

CONCEPT QUESTIONS (SP):

- 7) An auditor is not concerned with consistency of accounting policies relating to opening balances. (N18)

Q.No.23. Write about audit procedures & Reporting responsibility of Auditor in relation to Verifying the Appropriateness of opening balances for initial audit Engagements. (L TO L)

AUDIT PROCEDURE: The auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements by:

- 1) Determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, any adjustments have been disclosed as prior period items in the current year's Statement of Profit and Loss.
- 2) Determining whether the opening balances reflect the application of appropriate accounting policies; and
- 3) Performing one or more of the following:
 - a) Where the prior year financial statements were audited, perusing the copies of the audited financial statements including the other relevant documents relating to the prior period financial statements.
 - b) Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances; or
 - c) Performing specific audit procedures to obtain evidence regarding the opening balances.
- 4) If the auditor obtains audit evidence that the opening balances contain misstatements that could materially affect the current period's financial statements, the auditor shall perform such additional audit procedures as are appropriate in the circumstances to determine the effect on the current period's financial statements.
- 5) If the auditor concludes that such misstatements exist in the current period's financial statements, the auditor shall communicate the misstatements with the appropriate level of management and those charged with governance.

AUDIT REPORTING:

- 1) If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705.
- 2) If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's financial statements, and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed, the auditor shall express a qualified opinion or an adverse opinion, as appropriate, in accordance with SA 705.

CONCEPT QUESTIONS (CRD):

- 21) Thé closing stock of Lemon (P) Ltd. as on 31.3.2014 amounting to Rs. 58 lacs continued as it is as on 31.3.2015. The management contends that the inventory has not undergone any change and therefore, the auditor proposes to exclude from their audit programme the audit of closing stock as it pertains to the preceding year which was already audited by another auditor. Comment. (N17- RTP)

ADVANCED CONCEPT QUESTION: FACULTY SHALL DISCUSS 1 CQ HERE.

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Q.No.24. What are the Matters the Auditor considering in Determining the nature, timing & Extent of Audit Procedures to test the opening Balances?

(Or)

Discuss with reference to SA 510, "Initial Audit Engagement - Opening Balances", the procedures the auditor should undertake in respect of opening balances for a new audit engagement.

(Or)

The newly appointed auditor of BTN Limited wants to obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements. What audit procedures should he perform for this purpose?

(M22/N18) (M19- RTP)

- 1) **GENERAL MATTERS TO BE CONSIDERED:** The nature and extent of audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances depend on such matters as:
 - a) The accounting policies followed by the entity.
 - b) The nature of the account balances, classes of transactions and disclosures
 - c) The risks of material misstatement in the current period's financial statements.
 - d) The significance of the opening balances relative to the current period's financial statements.
 - e) Whether the prior period's financial statements were audited and, if so, whether the predecessor auditor's opinion was modified.
- 2) **IF THE PRIOR PERIOD WAS AUDITED BY A PREDECESSOR AUDITOR:**
 - a) If the prior period's financial statements were audited by a predecessor auditor, the auditor may be able to obtain sufficient appropriate audit evidence regarding the opening balances by perusing the copies of the audited financial statements including the other relevant documents relating to the prior period financial statements such as supporting schedules to the audited financial statements.
 - b) Ordinarily, the current auditor can place reliance on the closing balances contained in the financial statements for the preceding period, except when during the performance of audit procedures for the current period the possibility of misstatements in opening balances is indicated.

ADDITIONAL EXPLANATION (SP):

- 1) **FOR CURRENT ASSETS AND LIABILITIES:** For current assets and liabilities, some audit evidence about opening balances may be obtained as part of the current period's audit procedures.
 In the case of inventories, however, the current period's audit procedures on the closing inventory balance provide little audit evidence regarding inventory on hand at the beginning of the period. Therefore, additional audit procedures may be necessary, and one or more of the following may provide sufficient appropriate audit evidence:
 - a) Observing a current physical inventory count and reconciling it to the opening inventory quantities.
 - b) Performing audit procedures on the valuation of the opening inventory items.
 - c) Performing audit procedures on gross profit and cut-off.

For example: The collection (payment) of opening accounts receivable (accounts payable) during the current period will provide some audit evidence of their existence, rights and obligations, completeness and valuation at the beginning of the period.
- 2) **FOR NON- CURRENT ASSETS AND LIABILITIES:**
 - a) Such as property plant and equipment, investments and long-term debt, some audit evidence may be obtained by examining the accounting records and other information underlying the opening balances.
 - b) In certain cases, the auditor may be able to obtain some audit evidence regarding opening balances through confirmation with third parties.

For example: for long-term debt and investments audit evidence may be obtained through confirmation with third parties. In other cases, the auditor may need to carry out additional audit procedures.

CONCEPT QUESTION (CRD):

- 22) Auditors of M/s Tender India (P.) Ltd. were changed for the accounting year 2022-23. The closing inventory of the company as on 31.3.2022 amounting to ₹ 100 lakhs continued as it is and became closing inventory as on 31.3.2023. The auditors of the company propose to exclude from their audit programme the audit of closing inventory of ₹ 100 lakhs on the understanding that it pertains to the preceding year which was audited by another auditor. (N19-MTP)
- 23) M/s Pankaj & Associates, Chartered Accountants, have been appointed as an auditor of ABC Limited. CA Pankaj did not apply any audit procedures regarding opening balances. He argued that since financial statements were audited by the predecessor auditor therefore he is not required to verify them. Is CA Pankaj correct in his approach?

SA 710: "COMPARATIVE INFORMATION - CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS"**Q.No.25. Define Comparative Information & its Objectives?****(L TO L)**

- 1) **MEANING:** The amounts and disclosures included in the financial statements in respect of one or more prior periods in accordance with the applicable financial reporting framework.
- 2) **APPROACHES:** There are two different broad approaches
- Corresponding figures
 - Comparative financial statements.
- ADDITIONAL EXPLANATION (CRD):** The approach to be adopted is often specified by law or regulation but may also be specified in the terms of engagement.
- 3) **OBJECTIVES:** As per SA 710, the objectives of the auditor are:
- To obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable financial reporting framework; and
 - To report in accordance with the auditor's reporting responsibilities.

Q.No.26. Discuss about audit Procedure Regarding Comparative Information?

- 1) 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. For this purpose, the auditor shall evaluate whether:
- The comparative information agrees with the amounts and other disclosures presented in the prior period; and
 - 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.
- 4) As required by SA 580, the auditor shall request written representations for all periods referred to in the auditor's opinion.
- 5) 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.

Q.No.27. What does Corresponding Figures refers to & List out the circumstances when the auditor shall refer the Corresponding figures in Auditor's Report? (L TO L)

1) DEFINITION OF CORRESPONDING FIGURES:

- a) Comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial statements and are intended to be read only in relation to the amounts and other disclosures relating to the current period (referred to as "current period figures").
- b) The level of detail presented in the corresponding amounts and disclosures is dictated primarily by its relevance to the current period figures.

2) When corresponding figures are presented in FS, the auditor's opinion shall not refer to the corresponding figures except in the following circumstances:

- a) **If the auditor's report on the prior period, as previously issued, included a modified 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.
- b) **If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued,**
 - the auditor shall verify whether the misstatement has been dealt with as required under the applicable financial reporting framework and,
 - If that is not the case, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.
- c) **Prior Period Financial Statements Not Audited-**
 - If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph in the auditor's report that the corresponding figures are unaudited.
 - Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.
- d) **Prior Period Financial Statements Audited by a Predecessor Auditor:** If the financial statements of the prior period were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures and decides to do so, the auditor shall state in an Other Matter paragraph in the auditor's report:
 - That the financial statements of the prior period were audited by the predecessor auditor.
 - The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons; therefore, and
 - The date of that report.

ADVANCED CONCEPT QUESTIONS: FACULTY SHALL DISCUSS 1 CQ HERE.

Q.No.28. What does Comparative Financial Statements refers to & Describe the Procedure of reporting the Same?

1) DEFINITION:

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

2) AUDITOR'S OPINION: The auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed.

3) WHEN REPORTING ON PRIOR PERIOD FINANCIAL STATEMENTS IN CONNECTION WITH THE CURRENT PERIOD'S AUDIT, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with SA 706.

4) PRIOR PERIOD FINANCIAL STATEMENTS AUDITED BY A PREDECESSOR AUDITOR:

- a) If the financial statements of the prior period were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures and decides to do so, the auditor shall state in an Other Matter paragraph in the auditor's report:
 - That the financial statements of the prior period were audited by the predecessor auditor.
 - The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons; therefore, and
 - The date of that report.

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

- b) If the auditor concludes that a material misstatement exists that affects the prior period financial statements on which the predecessor auditor had previously reported without modification, the auditor shall communicate the misstatement with the appropriate level of management and those charged with governance and request that the predecessor auditor be informed.
- c) If the prior period financial statements are amended, and the predecessor auditor agrees to issue a new auditor's report on the amended financial statements of the prior period, the auditor shall report only on the current period.

5) PRIOR PERIOD FINANCIAL STATEMENTS NOT AUDITED:

- a) If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph that the comparative financial statements are unaudited.
- b) Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

CONCEPT QUESTIONS (CRD):

24) When reporting on comparative financial statements, an auditor ordinarily should change the previously issued opinion on the prior year's financial statements if the:

- a) Prior year's financial statements are restated to conform with generally accepted accounting principles.
- b) Auditor is a predecessor auditor who has been requested by a former client to reissue the previously issued report.

- c) Prior year's opinion was unmodified and the opinion on the current year's financial statements is modified due to a lack of consistency.
 - d) Prior year's financial statements are restated following a change in reporting entity in the current year.
- 25) Comparative financial statements include the prior year's statements that were audited by a predecessor auditor whose report is not presented. If the predecessor's report was unmodified, the successor should:
- a) Add an emphasis-of-matter paragraph that expresses only limited assurance concerning the fair presentation of the prior year's financial statements.
 - b) Express an opinion only on the current year's financial statements and make no reference to the prior year's financial statements.
 - c) Indicate in an other-matter paragraph that the predecessor auditor expressed an unmodified opinion on the prior year's financial statements.
 - d) Obtain a letter of representation from the predecessor auditor concerning any matters that might affect the successor's opinion.

SEC. 143(8): AUDIT OF BRANCH OFFICE ACCOUNTS

Q.No.29. Write about appointment of branch auditor?

(L TO L)

- 1) **WHO CAN CONDUCT BRANCH AUDIT:** Where a company has a branch office, the accounts of that office shall be audited either by
 - a) The auditor appointed for the company (i.e., Principal auditor) **or**
 - b) Any chartered accountant holding certificate of practice, **or**
 - c) Where the branch office is situated in a country outside India, either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor in accordance with the laws of that country.
- 2) **WHO CAN APPOINT BRANCH AUDITORS:**
 - a) Usually, the branch auditors are also appointed by the members.
 - b) However, the shareholders can delegate such power to BOD to appoint branch auditor.
- 3) **REPORTING REQUIREMENTS OF BRANCH AUDITORS:**
 - a) The branch auditor shall prepare a report on the accounts of the branch examined by him.
 - b) The branch auditor shall submit his report to the company's auditor.
 - c) The reporting requirements u/s 143(1), (3), (11) and (12) are equally applicable to branch auditors.

Q.No.30. What are the procedures that are required to be performed by principal auditor when using the work of Branch auditor?

SA 600: "USING THE WORK OF ANOTHER AUDITOR"

- 1) When the accounts of the branch are audited by a person other than the company's auditor (or principal auditor), there is need for a clear understanding of the role of such other auditor and the company's auditor in relation to the audit of the accounts of the branch and the audit of the company.
- 2) There is great necessity for a proper rapport (Understanding) between these two auditors for the purpose of an effective audit.
- 3) It makes clear that in certain situations, the statute governing the entity may confer a right on the principal auditor to visit a component and examine the books of account and other records of the said component, if he thinks it necessary to do so.

- 4) Where another auditor has been appointed for the component, the principal auditor would normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it essential for him to visit the component and/or to examine the books of account and other records of the said component.
- 5) Further, it requires that the principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment. When using the work of another auditor, the principal auditor should ordinarily perform the following procedures:
- a) Advise the other auditor of the use that is to be made of the other auditor's work and report.
 - b) make sufficient arrangements for co-ordination of their efforts at the planning stage of the audit.
 - c) The principal auditor would inform the other auditor of matters such as are as requiring special consideration, procedures for the identification of inter -component transactions that may require disclosure and
 - d) Inform the time-table for completion of audit.
 - e) Advise the other auditor of the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them.
 - f) The principal auditor might discuss with the other auditor the audit procedures applied or review a written summary of the other auditor's procedures and findings which may be in the form of a completed questionnaire or checklist.
 - g) The principal auditor may also wish to visit the other auditor.
 - h) The nature, timing and extent of procedures will depend on the circumstances of the engagement and the principal auditor's knowledge of the professional competence of the other auditor.
 - i) This knowledge may have been enhanced from the review of the previous audit work of the other auditor.

ADDITIONAL EXPLANATION (CRD):

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

CONCEPT QUESTIONS (CRD):

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

SA 299: JOINT AUDIT OF FINANCIAL STATEMENTS

Q.No.31. What are the Special Considerations to be carried out in case of audit by joint auditors? (L TO L)

- 1) The engagement partner and other key members of the engagement team from each of the joint auditors should be involved in planning the audit.

- 2) The joint auditors should jointly establish an overall audit strategy which sets the scope, timing and direction of the audit, and also guides the development of the audit plan.
- 3) Before the commencement of the audit, the joint auditors should discuss and develop a joint audit plan. In developing the joint audit plan, the joint auditors should:
 - a) Identify division of audit areas and common audit areas.
 - b) Ascertain the reporting objectives of the engagement.
 - c) Consider and communicate among all joint auditors the factors that are significant in directing the engagement team's efforts.
 - d) Consider the results of preliminary engagement activities, or similar engagements performed earlier.
 - e) Ascertain the nature, timing and extent of resources necessary to accomplish the engagement.
- 4) Each of the joint auditors should consider and assess the risks of material misstatement and communicate to other joint auditors.
- 5) The joint auditors should discuss and document the nature, timing, and the extent of the audit procedures for common and specific allotted areas of audit to be performed.
- 6) The joint auditors should obtain common engagement letter and common management representation letter.
- 7) The work allocation document should be signed by all the joint auditors and communicated to those charged with governance.

Q.No.32. What are the Cases where joint Auditors are Jointly Responsible As per SA 299? (L TO L)

- 1) The audit work which is not divided among the joint auditors and is carried out by all joint auditors.
- 2) Decisions taken by all the joint auditors under audit planning in respect of common audit areas.
- 3) Matters which are brought to the notice of the joint auditors by any one of them and there is an agreement among the joint auditors on such matters.

ADDITIONAL EXPLANATION (CRD): In case a joint auditor comes across matters which are relevant to the areas of responsibility of other joint auditors, and which deserve their attention, or which require disclosure or require discussion with, or application of judgment by other joint auditors, the said joint auditor shall communicate the same to all the other joint auditors in writing prior to the completion of the audit.

- 4) Examining that the financial statements of the entity comply with the requirements of the relevant statutes.
- 5) Presentation and disclosure of the financial statements as required by the applicable financial reporting framework.
- 6) Ensuring that the audit report complies with the requirements of the relevant statutes, applicable Standards on Auditing and other relevant pronouncements issued by ICAI.

Q.No.33. What is Manner of Reporting in case of joint audit as per SA 299?

- 1) The joint auditors are required to issue common audit report. However, where the joint auditors are in disagreement with regard to the opinion or any matters to be covered by the audit report, they shall express their opinion in a separate audit report.
- 2) In such circumstances, the audit report(s) issued by the joint auditor(s) shall make a reference to each other's audit report(s)

- 3) A joint auditor is not bound by the views of the majority of the joint auditors regarding the opinion or matters to be covered in the audit report and shall express opinion formed by the said joint auditor in separate audit report in case of disagreement.
- 4) Further, separate audit report shall also make reference to the audit report issued by other joint auditors.
- 5) Such reference shall be made under the heading “Other Matter Paragraph” as per Revised SA 706, “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report”.
- 6) Each joint auditor is entitled to assume that:
 - a) The other joint auditors have carried out their part of the audit work and the work has actually been performed in accordance with the Standards on Auditing issued by the ICAI.
 - b) It is not necessary for a joint auditor to review the work performed by other joint auditors or perform any tests in order to ascertain whether the work has actually been performed in such a manner.
 - c) The other joint auditors have brought to said joint auditor’s notice any departure from applicable financial reporting framework or significant observations that are relevant to their responsibilities noticed in the course of the audit.

REPORTING REQUIREMENTS UNDER THE COMPANIES ACT, 2013

Q.No.34. Under section 143(1), auditor shall inquire into various matters. Explain?

(L TO L)

DUTY OF AUDITOR TO INQUIRE ON CERTAIN MATTERS u/s 143(1): It is the duty of auditor to inquire into the following matters:

- 1) Whether loans and advances made by the company.
 - a) On the basis of security have been properly secured and
 - b) Whether the terms on which they have been made are prejudicial to the interests of the company or its members.
- 2) Whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company.
- 3) Whether any Shares or Securities held by the company are sold at a price less than purchase price. However, this point shall not apply to banking and investment companies.
- 4) Whether loans and advances made by the company have been shown as deposits.
- 5) Whether personal expenses have been charged to revenue account.
- 6) Where it is stated in the books and documents of the company that any shares have been allotted for cash:
 - a) Whether cash has actually been received in respect of such allotment and
 - b) If no cash has actually been received, the position as stated in the account books and the balance sheet is correct, regular and not misleading.

ADDITIONAL EXPLANATION (CRD): If the auditor got a positive response he can ignore above matters. However, if there is any negative or adverse comments observed then he shall state them in his report along with reasons. In the audit report these matters should be included under the section “reporting on legal and other regulatory requirements.”

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Q.No.35. Under section 143(3), auditor shall report on various matters. Explain?

(L TO L)

DUTY TO REPORT ON CERTAIN MATTERS u/s 143(3): The auditor's report shall also state

- 1) Whether he has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit.
- 2) Whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him;
- 3) Whether the report on the accounts of any branch office of the company audited by a person other than the company's auditors (Branch auditor) has been sent to him and How he has dealt with it in preparing his report;
- 4) Whether the company's balance sheet and profit and loss account (Financial Statements) dealt with in the report are in agreement with the books of account and returns.
- 5) Whether, in his opinion, the financial statements comply with the accounting standards.
- 6) The observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company.
- 7) On the basis of the written representations received from the directors, whether any director is disqualified from being appointed as a director under sub- section (2) of the section 164.
- 8) Any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith.

Q.No.36. Explain in Brief Applicability & Duty of Auditor in respect of Sec 143 (3)?

(L TO L)

A separate report on whether the company has adequate internal financial controls w.r.t financial statements in place and the operating effectiveness of such controls.

EXCEPTIONS: The provisions of internal financial controls shall not apply for the following private limited companies:

- i) One Person company.
- ii) Small company.
- iii) A Private company satisfying the following conditions-
 - Turnover as per the latest financial statements shall not exceed Rs. 50 Crore and
 - Loans and Borrowings from banks, financial institutions and body corporates shall not exceed Rs. 25 Crore at any point of time.

Q.No.37. Under section 143(3), auditor shall report on various matters. Explain?

(L TO L)

Such other matters as may be prescribed. Rule 11 of the Companies (Audit and Auditors) Rules, 2014 prescribes the other matters to be included in auditor's report. The auditor's report shall also include their views and comments on the following matters, namely: - **(DEC21-QP-3M)**

- a) Whether the company has disclosed the impact of pending litigations on its financial position in its financial statement.
- b) Whether the company has made provision, as required under any law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts.

- c) Whether there has been any delay in transferring amounts required to be transferred, to the Investor Education and Protection Fund by the company.
- d)
- i) Whether the management has represented that, to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the company to or in any other person(s) or entity(ies), including foreign entities ("Intermediaries"), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries;
 - ii) Whether the management has represented, that, to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been received by the company from any person(s) or entity(ies), including foreign entities ("**Funding Parties**"), with the understanding, whether recorded in writing or otherwise, that the company shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party ("**Ultimate Beneficiaries**") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries; and
 - iii) Based on such audit procedures that the auditor has considered reasonable and appropriate in the circumstances, nothing has come to their notice that has caused them to believe that the representations under sub-clause (i) and (ii) contain any material misstatement.
- e) Whether the dividend declared or paid during the year by the company is in compliance with section 123 of the Companies Act, 2013
- f)
- a) Whether the company has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and
 - b) The same has been operated throughout the year for all transactions recorded in the software and
 - c) The audit trail feature has not been tampered with and
 - d) The audit trail has been preserved by the company as per the statutory requirements for record retention.

AUDIT REPORTING REQUIREMENTS:

- a) The auditor shall report on the above matters irrespective of positive or negative remarks observed by him.
- b) Further he shall state these matters under the section "reporting on legal and other regulatory requirements".
- c) Also give the reasons for negative remarks

ADVANCED CONCEPT QUESTIONS: FACULTY SHALL DISCUSS 1 CQ HERE.

Q.No.38. What are the Criteria for Calculating Applicability of CARO 2020?

(L TO L)

NOTE:

- The applicability & non applicability part of CARO 2020 is analysed and simplified to the core as there is a possibility of testing a practical question in the public examination.
- Whereas the Reporting Requirements of the order is dumped from the Board Material as it is to ensure that the student shall go through the content as there is a high possibility of posing a true or false question.

- 1) **APPLICABILITY OF THE ORDER:** The Central Government, after consultation with National Financial Reporting authority hereby makes the order namely The Companies Auditor Report Order, 2020 (CARO). This is an additional reporting requirement Order. The order applies to every company including a foreign company. However, it shall not apply to following classes of companies:

(A) (L to L) (N19-MTP1-3M)

- a) A banking company.
- b) An insurance company
- c) A company licensed to operate under section 8 of the Companies Act.
- d) A One Person Company.
- e) A Small company and
- f) A Private Limited Company:
 - i) Not being a subsidiary or holding company of a public company and
 - ii) The Total Paid up capital and reserves & surplus shall not exceed Rs. 1 Crore as on the balance sheet date and
 - iii) The Total Borrowings from banks and financial institutions shall not exceed Rs. 1 Crore at any point of time during the financial year and
 - iv) Total Revenue calculated as per Schedule III (including revenue from discontinuing operations) shall not Exceed Rs. 10 crore during the financial year as per the financial statements.

Q.No.39. What are the Points to be Considered While Assessing the Applicability of CARO 2020?

POINTS TO BE KEPT IN MIND WHILE CALCULATING ABOVE PARAMETERS:

1) PAID UP SHARE CAPITAL:

- a) *It includes both equity share capital as well as the preference share capital.*
- b) *Calls in Arrears shall be reduced from Called up capital to arrive at paid up share capital*
- c) *Share application money received pending allotment and calls in advance is not a part of paid-up share capital.*
- d) *Reserve Capital is neither a part of Reserves & Surplus nor a part of Paid-up Share Capital*
- e) *ESOPs & Rights not exercised shall not be a part of Share Capital*
- f) *Convertible instruments whether optionally or fully convertible should be considered in paid up share capital only once the actual shares are issued by the company.*

2) RESERVES AND SURPLUS:

- a) *It includes all the reserves (whether capital or revenue reserves) as disclosed in the Schedule III of the companies act, 2013.*
- b) *Revaluation reserve, if any, should be taken into consideration while determining the applicability of CARO.*
- c) *The debit balance of the profit and loss account, if any, should be reduced from the figures of Reserves & Surplus same as per Schedule III.*
- d) *If there any excess debit balance of profit and loss account after adjustment to Reserves & Surplus, then such excess can be netted off against Paid up Capital also.*
- e) *Provisions are not reserves whether they are made for depreciation or for Diminution in the value of assets or for any known liability.*
- f) *Share Options Outstanding Account is a part of Reserves & Surplus*

3) BORROWING:

- a) Loans taken from banks and financial institutions are only to be considered.
- b) Outstanding balances should be considered
- c) Where the company has taken any overdraft facility against Fixed Deposits, the gross amount outstanding in overdraft facility (without adjusting Fixed Deposit) shall be considered for the purpose of CARO.
- d) The limit shall be computed with reference to the aggregate borrowings from all banks and financial institutions cumulatively but not as per each bank or financial institute basis.
- e) It includes all the loans irrespective of nature of loans:
 - i) Whether term loans, demand loans, working capital loans, cash credits, and overdraft, bills purchased and discounted.
 - ii) Whether loans are secured or unsecured.
- f) It excludes non-fund based credit facilities.
But includes to the extent such facilities have devolved and have been converted into fund based credit facilities
- g) Interest accrued, due and not paid is considered as a borrowing whereas interest accrued but not due or interest already paid is not considered as a borrowing.
- h) Amounts outstanding in respect of credit Cards also would also be considered.
- i) The limit shall be considered at any point of time during the financial year i.e. on any day during the year but need not on the date of balance sheet.

4) REVENUE:

- a) Revenue means the aggregate amount of sales affected by the company including the revenue from discontinuing operations and other incomes.
- b) It includes sale of goods, services & any other operating revenues earned by the company.
- c) GST shall be deducted from the Turnover.
- d) It excludes sales returns and trade discounts, if any.

5) ADDITIONAL POINTS:**a) In the case of holding and subsidiary companies:**

- i) The limits for applicability of CARO should be computed on the basis of standalone financial statements of holding and subsidiary companies separately but not on the basis of consolidated financial statements.
- ii) CARO, 2020 reporting shall not apply to the Auditor's Report on Consolidated Financial Statements

But, the auditor will need to give a CARO report on the consolidated financial statements with respect to clause (xxi) of the Order.

b) In the case of companies having branches:

- i) The limits for the purpose of Applicability of CARO shall be computed from the entire company's view including the amounts from all the branches but not w.r.t each branch wise.
- ii) Once it is applicable to the company as a whole, then each and every branch of the company will be covered under CARO. Therefore, all the branch auditors of the company are also required to report on these 21 matters in their branch audit report of the concerned branches.

iii) The Order is also applicable to the audits of project office / liaison office established by a company outside India, to whom the Order applies. In case the company has appointed separate auditors for the project office / liaison office, the auditor of the company should seek a report from the said auditors which contains a statement on all the matters specified in the Order, as applicable to the company, except where the company is exempt from the applicability of the Order.

- c) Reporting under the Order shall be applicable for the audits of financial year 2021-22 and onwards.
- d) CARO 2020 is not a substitute for reporting following SA 700 but an annexure to it.

6) AUDIT DOCUMENTATION FOR CARO 2020:

- a) submit to the company, a questionnaire on all important matters covered by the Order.
- b) make specific inquiries in writing on all important matters not covered by the questionnaire.
- c) insist that replies of the company are furnished in writing and are signed by a responsible officer of the company.
- d) where the explanations are not already separately recorded, maintain a record of the discussions with the management.
- e) prepare his own "checklist" in respect of the requirements of the Order and record the names of the members of his staff who made the examination and the name of the company's staff who provided the information.

Q.No.40. What is the Manner of Communication Under CARO 2020?

(L TO L)

MATTERS TO BE COMMUNICATED AS PER CARO:

1) PROPERTY, PLANT AND EQUIPMENT:

(L to L) (N18- MTP1-3M)

- a) Whether the company is maintaining proper records showing full particulars including
 - i) Quantitative details and
 - ii) Situation of Property, Plant and Equipment.
 - iii) Full particulars of Intangible assets
- b) Whether these Property, Plant and Equipment. have been physically verified by the management at reasonable intervals; Whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of accounts.
- c) Whether the title of immovable properties (other than properties taken on lease) are held in the name of the company. If not provide the following details:
 - i) Description of property
 - ii) Gross carrying value
 - iii) Held in name of
 - iv) Whether promoter, director or their relative or employee
 - v) Period held
 - vi) Reason for not being held in name of company
- d) Whether the company has revalued its Property, Plant and Equipment or intangible assets or both during the year and, if so
 - i) Whether the revaluation is based on the valuation by a Registered Valuer
 - ii) If change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets, specify the amount of change

- e) Whether any proceedings have been initiated or are pending against the company for holding any Benami property under the Benami Transactions (Prohibition) Act, 1988. If so, whether the company has appropriately disclosed the details in its financial statements.

2) INVENTORIES:

(L to L)

- a) Whether physical verification of inventory has been conducted at reasonable intervals by the management and
- i) Whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate.
 - ii) Whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account.
- b) Whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets.
- i) If yes, whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details

3) LOANS, GUARANTEE AND SECURITY TO DIRECTORS AND INTERESTED PARTIES: (M18-MTP1-2M)

- a) Whether the company (other than those whose principal business is to give loans) granted any loans, secured or unsecured to companies, firms, Limited Liability Partnerships or other parties covered in the register maintains under section 189 of the Co.'s Act, 2013. If so,
- i) Indicate the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates
 - ii) The aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to parties other than subsidiaries, joint ventures and associates
- b) Whether the terms & conditions of grant of such loans are not prejudicial to the company's interest.
- c) Whether the repayment of principal & payment of interest has been regularly received on or before the due dates.
- d) If amount is overdue and if such amount overdue for more than 90 days, whether reasonable steps have been taken by the company for recovery of the principal and interest.
- e) Whether any loan or advance in the nature of loan granted which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the overdues of existing loans given to the same parties, if so specify (other than those whose principal business is to give loans)
- i) The aggregate amount of such dues renewed or extended or settled by fresh loans
 - ii) Percentage of the aggregate of loans granted during the year to the total loans or advances
- f) Whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify,
- i) The aggregate amount
 - ii) Percentage thereof to the total loans granted
 - iii) Aggregate amount of loans granted to Promoters, related parties

NOTE: It should be noted that CARO 2020 consider loans granted but not loans taken.

- 4) **LOANS, INVESTMENTS, GUARANTEES MADE BY COMPANY:** In respect of loans, Investments, Guarantees, and securities provided by company, whether provisions of section 185 & 186 have been complied with? If not, provide the details thereof.

NOTE: This point also deals only with loans made and not loans received.

- 5) **DEPOSITS:** *In case the company has accepted deposits from the public, including deemed deposits (M21-MTP1-3M, N19-4M)*

- a) Verify the compliance with the following:
- i) The provisions of Sections 73 to 76 of the Co.'s Act, 2013 or
 - ii) Whether the directives issued by the RBI and
 - iii) An order passed by CLB or any court or any other Tribunal, if any.
- b) If there is any Non-compliance, the nature of contraventions should be stated.

- 6) **COST RECORDS:**

- a) *Whether maintenance of cost records has been prescribed by the Central Government under sub section (1) of section 148 of the Co.'s Act, 2013 is applicable.*
- b) *If applicable, whether such accounts and records have made and maintained.*

- 7) **STATUTORY DUES:**

(L to L)

- a) **UNDISPUTED DUES:**

- i) Is the company regular in depositing undisputed statutory dues e.g. provident fund, ESI, Income Tax, GST tax and any other statutory dues with the appropriate authorities and
- ii) If not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated by the auditor. (Only Information and not opinion)

- b) **DISPUTED DUES:**

In case dues have not been deposited on account of any dispute, the auditor shall indicate

- i) The amounts involved in dispute and
- ii) The forum where dispute is pending.

Note: A mere representation to the concerned department shall not constitute a dispute.

- 8) **UNRECORDED INCOME:**

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

- 9) **DEFAULT IN REPAYMENT OF DUES:**

- a) *Whether the company has defaulted in repayment of borrowings of loans or in the payment of interest to any lender, if yes, the period and amount of default to be reported each lender wise.*
- b) *Whether the company is a declared willful defaulter by any bank or financial institution or other lender*
- c) *Whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported.*
- d) *Whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated.*

- e) *Whether the company has taken any funds from any entity or person on account of or to meet the obligations of its subsidiaries, associates or joint ventures, if so, details thereof with nature of such transactions and the amount in each case.*
- f) *Whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised.*

10) APPLICATION OF FUNDS:**(DEC21-QP- 4M)**

- a) Whether the money raised by way of initial or further public offer (including debt instruments) were utilized for the purposes for which those are raised.
 - i) If not, the details along with the defaults, delays & subsequent rectifications, if any, to be reported.
- b) Whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so,
 - i) Whether the requirements of section 42 and section 62 of the Companies Act, 2013 have been complied with and
 - ii) The funds raised have been used for the purposes for which the funds were raised,
 - iii) If not, provide details in respect of amount involved and nature of noncompliance.

11) REPORTING OF FRAUDS:**(M18-MTP1-2M)**

- a) Whether any fraud by or on the company has been noticed or reported during the year.
 - i) If yes, the nature and the amount involved is to be indicated.
- b) Whether any report under sub-section (12) of section 143 of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed with the Central Government.
- c) Whether the auditor has considered whistle-blower complaints, if any, received during the year by the company.

12) NIDHI COMPANY:

- a) Whether Nidhi Company has complied with the net owned funds (i.e., net worth) to deposits in the ratio of **1:20** to meet out the liability.
i.e., for everyone rupee of net owned funds, Nidhi company cannot accept more than 20 rupees of deposits.
- b) Whether Nidhi Company is maintaining 10% Unencumbered term deposits as specified in Nidhi Rules, 2014 to meet out the liability
- c) Whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof.

13) RELATED PARTY TRANSACTION: *Whether all transaction with related parties are*

- a) In compliance with section 177 & 188 where applicable, &
- b) Details have been disclosed in the financial statements etc., as required by applicable accounting standards.

14) INTERNAL AUDIT SYSTEM:

- a) Whether the company has an internal audit system commensurate with the size and nature of its business.
- b) Whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor.

15) NON-CASH TRANSACTION: Whether Company has entered into any Non-Cash Transactions with directors or persons connected there with & if so provisions of section 192 have been complied with.

16) NON-BANKING FINANCIAL INSTITUTION: (L to L)

- a) Whether the company is required to be registered under section 45-IA of Reserve Bank of India Act 1934, and If so, whether the registration has been obtained.
- b) Whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India.
- c) Whether the company is a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India, if so,
 - i) whether it continues to fulfil the criteria of a CIC, and
 - ii) in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria.
- d) Whether the Group has more than one CIC as part of the Group, if yes, indicate the number of CICs which are part of the Group.

17) CASH LOSSES:

- a) Whether the company has incurred cash losses in the financial year and in the immediately preceding financial year, if so, state the amount of cash losses.

18) RESIGNATION OF PREVIOUS YEARS AUDITOR:

- a) Whether there has been any resignation of the statutory auditors during the year,
- b) If so, whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors.

19) ABILITY TO MEET LIABILITIES: (L to L)

- a) 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,
- b) Whether the auditor is of the opinion that no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date.

20) CORPORATE SOCIAL RESPONSIBILITY:

- a) Whether, in respect of other than ongoing projects, the company has transferred unspent amount to a Fund specified in Schedule VII to the Companies Act within a period of six months of the expiry of the financial year in compliance with second proviso to sub-section (5) of section 135 of the said Act.
- b) Whether any amount remaining unspent under subsection (5) of section 135 of the Companies Act, pursuant to any ongoing project, has been transferred to special account in compliance with the provision of subsection (6) of section 135 of the said Act;

21) QUALIFICATIONS OR ADVERSE REMARKS IN CARO OF GROUP COMPANIES:

- a) Whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the consolidated financial statements,
- b) If yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks.

AUDIT REPORTING:

- 1) The reporting under the above matters is mandatory. Means whether it is positive or negative the auditor must comment.

- 2) Where the response obtained for the above matters is negative, the auditor shall give reasons thereof.
- 3) Also, where the auditor is unable to express any opinion on any specified matter, his report shall indicate such fact together with the reasons why it is not possible for him to give his opinion on the same.

ADVANCED CONCEPT QUESTIONS: FACULTY SHALL DISCUSS 5 CQ HERE.

THEORY FOR SELF STUDY

Q.No.1. the auditor shall explain the reasons for modification in the auditor's report under basis for opinion paragraph when he decides to issue a modified opinion. what are the matters to be considered in this regard.

1) MATERIAL MISSTATEMENT RELATES TO SPECIFIC AMOUNTS:

- a) If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures in the notes to the financial statements), the auditor shall include in the Basis for Opinion section a description and quantification of the financial effects of the misstatement, unless impracticable.
- b) If it is not practicable to quantify the financial effects, the auditor shall so state in this section.

2) MATERIAL MISSTATEMENT RELATES TO NARRATIVE DISCLOSURES: If there is a material misstatement of the financial statements that relates to narrative disclosures, the auditor shall include in the Basis for Opinion section an explanation of how the disclosures are misstated.

3) MATERIAL MISSTATEMENT RELATES TO THE NON-DISCLOSURE: If there is a material misstatement of the financial statements that relates to the non-disclosure of information required to be disclosed, the auditor shall:

- a) Discuss the non-disclosure with those charged with governance (TCWG).
- b) Describe in the Basis for Opinion section the nature of the omitted information; and
- c) Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so, and the auditor has obtained sufficient appropriate audit evidence about the omitted information.

4) INABILITY TO OBTAIN AUDIT EVIDENCE: If the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor shall include in the Basis for Opinion section the reasons for that inability.

5) AUDITOR EXPRESSES A QUALIFIED OR ADVERSE OPINION: the auditor shall amend the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion required by SA 700 (Revised) to include the word "qualified" or "adverse", as appropriate.

6) AUDITOR EXPRESSES DISCLAIMER OF OPINION: The auditor's report shall not include the following elements required by SA 700 (Revised).

- a) A reference to the section of the auditor's report where the auditor's responsibilities are described; and
- b) A statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

7) Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the auditor shall describe in the Basis for Opinion section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof.

Q.No.2. Write about the responsibility of auditor regarding “Consistency of Accounting Policies Under SA 510?”

- 1) The auditor shall obtain sufficient appropriate audit evidence about whether the accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, and
- 2) whether changes in the accounting policies have been properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.
- 3) The auditor shall express a qualified or adverse opinion as appropriate If he concludes that:
 - a) The current period's accounting policies are not consistently applied in relation to opening balances in accordance with the applicable financial reporting framework; or
 - b) A change in accounting policies is not properly accounted for or not adequately presented or disclosed in accordance with the applicable financial reporting framework.

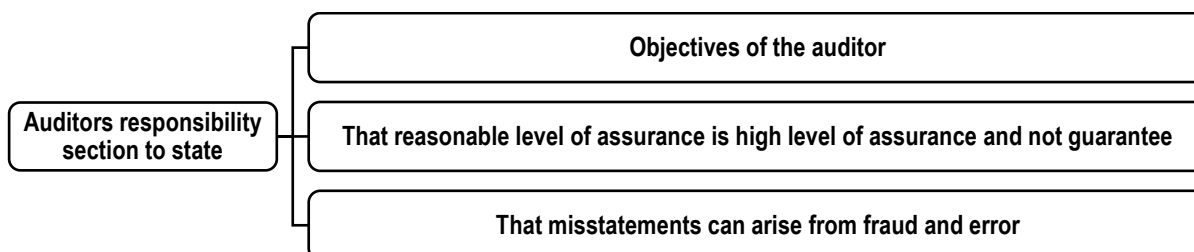
Q.No.3. What are the Minimum Elements that are required to be included in the Auditor's Report to refer the SAs when Law or regulation specifies a layout that is different from layout under SA 700?

When the differences between the legal or regulatory requirements and SAs relate only to the layout and wording of the auditor's report, If the auditor is required by law or regulation to use a specific layout, or wording of the auditor's report, the auditor's report shall refer to Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements:

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

Q.No.4. Briefly Explain auditor's Responsibilities for the Audit of Financial Statements.

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

1) This section of the auditor's report shall state:


- a) That the objectives of the auditor are to:
 - ii) Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
 - iii) Issue an auditor's report that includes the auditor's opinion.
- b) That reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists; and
- c) That misstatements can arise from fraud or error, and either:
 - i) Describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these financial statements; or
 - ii) Provide a definition or description of materiality in accordance with the applicable financial reporting framework.

2) The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report shall further:

- a) State that, as part of an audit in accordance with SAs, the auditor exercises professional judgement and maintains professional skepticism throughout the audit; and
- b) Describe an audit by stating that the auditor's responsibilities are:
 - i) To identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - ii) To obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
 - iii) To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - iv) To conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
 - v) When the financial statements are prepared in accordance with a fair presentation framework, to evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- c) When SA 600 applies, further describe the auditor's responsibilities in a group audit engagement by stating: The division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components is audited by the other auditors have been included in the financial information of the entity, e.g., the number of divisions /branches/subsidiaries or other components audited by other auditors.

3) The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report also shall:

- a) State that the auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.
- b) For audits of financial statements of listed entities, state that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

Q.No.5. What is the Manner of reporting by an auditor in an Audit report when different types of Opinion arise?

1) OPINION PARAGRAPH PHRASING FOR UNMODIFIED OPINION: When expressing an unmodified opinion on financial statements, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:

- a) In our opinion, the accompanying financial statements present fairly, in all material respects, [...] in accordance with [the applicable financial reporting framework].

OR

- b) In our opinion, the accompanying financial statements give a true and fair view of [...] in accordance with [the applicable financial reporting framework].

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

- c) When the auditor expresses an unmodified opinion, it is not appropriate to use phrases such as "with the foregoing explanation" or "subject to" in relation to the opinion, as these suggest a conditional opinion or a weakening or modification of opinion.

2) OPINION PARAGRAPH PHRASING FOR QUALIFIED OPINION: When the auditor expresses a qualified opinion due to a material misstatement in the financial statements, the auditor shall state that, in the auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion section,

- a) When reporting in accordance with a fair presentation framework, the accompanying financial statements present fairly, in all material respects (or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework].

OR

- b) When reporting in accordance with a compliance framework, the accompanying financial statements have been prepared, in all material respects, in accordance with [the applicable financial reporting framework]. When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor shall use the corresponding phrase "except for the possible effects of the matter(s) ..." for the modified opinion.

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3) **OPINION PARAGRAPH PHRASING FOR ADVERSE OPINION:** When the auditor expresses an adverse opinion, the auditor shall state that, in the auditor's opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion section,

- a) When reporting in accordance with a fair presentation framework, the accompanying financial statements do not present fairly (or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework];

OR

- b) When reporting in accordance with a compliance framework, the accompanying financial statements have not been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

4) **OPINION PARAGRAPH PHRASING FOR DISCLAIMER OF OPINION:** When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall:

- a) State that the auditor does not express an opinion on the accompanying financial statements.
b) State that, because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and

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

Q.No.6. Description of Auditor's Responsibilities for the Audit of the Financial Statements When the Auditor Disclaims an Opinion on the Financial Statements

When the auditor disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the description of the auditor's responsibilities required by SA 700 to include only the following:

- a) A statement that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with Standards on Auditing and to issue an auditor's report.
b) A statement that, however, because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and
c) The statement about auditor independence and other ethical responsibilities required by SA 700.

Q.No.6. What are the Advantages & disadvantages of Joint Audit?

1) **ADVANTAGES OF JOINT AUDIT:**

- a) Sharing of expertise.
b) Advantage of mutual consultation.
c) Lower workload.
d) Better quality of performance.
e) Improved service to the client.
f) In respect of multi-national companies, the work can be spread using the expertise of the local firms which are in a better position to deal with detailed work and the local laws and regulations.
g) Lower staff development costs.
h) Lower costs to carry out the work.
i) A sense of healthy competition towards a better performance.

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2) DISADVANTAGES:

- a) The fees being shared.
- b) Psychological problem where firms of different standing are associated in the joint audit.
- c) General superiority complex of some auditors.
- d) Problems of co-ordination of the work.
- e) Areas of work of common concern being neglected.

Uncertainty about the liability for the work done.

Q.No.7. Write the Prohibition on Key Audit Matters and the circumstances where the key audit matter shall not be communicated.

- 1) **PROHIBITION ON KEY AUDIT MATTERS (KAM):** SA 705 prohibits the auditor from communicating key audit matters when the auditor disclaims an opinion on the financial statements.
- 2) **CIRCUMSTANCES WHERE A KEY AUDIT MATTER SHALL NOT BE COMMUNICATED:** In the following circumstances the auditor shall not communicate KAM: (Even in cases where Disclaimer Opinion is expressed)
 - a) Law or regulation prohibits such disclosure about the matter; **or**
 - b) The auditor determines that the matter should not be communicated in the auditor's report because of the possible adverse consequences.
 - c) If the auditor concluded that the matter is highly confidential or sensitive at the interest of the company.

DIVISION 5: TEST YOUR KNOWLEDGE(CRD)

- 1) In order to form the audit opinion as required by SA 700, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Explain the conclusions that the auditor shall take into account. Also explain the objective of auditor as per SA 700.
- 2) The auditor shall evaluate whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. Advice about qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. **(OLD SM-TYK) (M18-5M, M19-MTP1-4M)**
- 3) The first section of the auditor's report shall include the auditor's opinion and shall have the heading "Opinion." The Opinion section of the auditor's report shall also identify the entity whose financial statements have been audited. Apart from the above, explain the other relevant points to be included in opinion section. **(OLD SM-TYK)**
- 4) Communicating Key Audit Matter is not a substitute for disclosure in the Financial Statements rather Communicating key audit matters in the auditor's report is in the context of the Auditor having formed an opinion on the financial statements as a whole. Analyze. **(M22-MTP2) (OLD SM- TYK)**
- 5) XYZ Ltd. which is in the business of trading of automobile components is following Cash Basis of Accounting for sale of spare parts. As Statutory Auditor of XYZ Ltd. explain the reporting requirements, manner of qualification and disclosure, if any, to be made in the auditor's report in line with AS-1 'Disclosure of Accounting Policies'. **(JAN 21-3M)**

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- 6) D Ltd. is a company engaged in publishing business magazines. CA P is the statutory auditor of the company. The company takes property in the barter deal from its real estate customers against publication of their advertisements. The properties obtained during the year through such barter deals have been considered in the books of accounts on the basis of possession letter only and have been included in PPE in the financial statements. Considering this matter of such importance that is fundamental to the users understanding, CA P has decided to communicate the same in his report. CA P seeks your guidance in reporting this matter in his audit report. **(M22-4M)**

DIVISION 6: TEST YOUR KNOWLEDGE (SELF STUDY)

- 1) "The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework." Explain. **(OLD SM-TYK)**
- 2) An auditor is required to make a specific evaluation while forming an opinion in an audit report. State them. **(OLD SM-TYK), (N18-4M)**
- 3) The Auditor is fully satisfied with the audit of an entity in respect of its systems and procedures and wants to issue a report without any hesitation. What type of opinion can be give and state give reasoning? **(M19-MTP2-3M, M18- 4M)**
- 4) The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." SA 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with SAs is conducted. Explain. **(OLD SM-TYK), (N18-RTP, M19-MTP2- 4M)**
- 5) The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion". Explain what is included in this "Basis for Opinion" section. **(OLD SM-TYK), (N20-RTP)**
- 6) In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that lack of neutrality together with uncorrected misstatements causes the financial statements to be materially misstated. Explain and analyse the indicators of lack of neutrality with examples, wherever required. **(OLD SM -TYK), (M20-RTP)**
- 7) How would an auditor determine Key Audit Matters as per SA - 701, "Communicating Key Audit Matters in the Independent Auditor's Report"? **(N20-3M)**
- 8) Communicating key audit matters in the auditor's report is 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. **(M18- 2M)**
- 9) The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters". What would the introductory language in this section of the auditor's report state. Also, state the purpose of communicating key audit matters.
- 10) Discuss the factors affecting the decision of the auditor regarding which type of modified opinion is appropriate. **(OLD SM-TYK)**
- 11) Discuss the objective of the auditor as per Standard on Auditing (SA) 705 "Modifications to The Opinion in The Independent Auditor's Report" **(OLD SM-TYK)**
- 12) Give a brief description about the management responsibility to be mentioned in the statutory auditor's report. **(OLD SM-TYK)**
- 13) An auditor should issue disclaimer opinion when there is difference of opinion between him and the management on a particular point. **(N18-2M)**
- 14) The auditor will issue a disclaimer of opinion if he disagrees with the Management with regard to the acceptability of the Accounting Policies and the inadequacy of disclosures in the financial statements. **(N18-2M)**
- 15) If financial statements are misstated, and in the auditor's judgment such misstatement is material and pervasive, he should issue a qualified opinion.

- 16) What an auditor should state in "Basis for opinion" section of auditor's report and when the auditor modifies the opinion on the financial statements, what amendments he should make in this section?
(JAN21-4M)
- 17) Define emphasis of matter paragraph and how it should be disclosed in the independent auditor's report?
(OLD SM - TYK), (M18-5M; M19-RTP, N20-RTP)
- 18) When the auditor includes an Other Matter paragraph in the auditor's report, the auditor need not include the paragraph within a separate section.
(NON-ICAI SOURCES)
- 19) What constitutes true and fair view is a matter of auditor's judgement, but some specific points must be seen by the auditor to ensure true and fair view.
(NON-ICAI SOURCES)
- 20) What are the disclosure requirements in auditors reporting regarding AS – 1 OR What are the circumstances in which auditors are required to qualify their reports of companies for matters related to AS- 1 'Disclosure of Accounting Policies'?
(M22-MTP1)

DIVISION 5: IDENTICAL QUESTIONS

- 1) Define Emphasis of Matter paragraph. When shall the auditor include an Emphasis of Matter paragraph in the auditor's report? Also explain how the auditor would include an Emphasis of Matter in the auditor's report.

OR

What is an Emphasis of Matter paragraph, when it is used, & manner of its use in an audit report?

(M18-5M, M17-4M) (N20-RTP)

Hint: Refer - Objective of Emphasis of Matter Paragraph in the Independent Auditor's Report in SA 706

- 2) Mention the examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph.
(N20-3M) (N22-RTP)

Hint: Refer Examples of Emphasis of Matter.

- 3) What are the circumstances that may result in other than an unqualified opinion on the Financial Statements by an auditor?

OR

While conducting audit of VED Ltd., you as an auditor are not only prevented in completing certain audit procedures but also are not able to obtain audit evidence even by performing alternative procedures. How will you deal with this situation?
(N17-5M)

Hint: Refer - Consequence of an inability to obtain SAAE Due to a Management-imposed Limitation After the auditor has accepted the Engagement.

- 4) The auditor of ABC Ltd is unable to obtain sufficient appropriate audit evidence, & also he draws a conclusion that the possible effects on the financial statements of undetected misstatements, if any, could be both material & pervasive.
(M13-RTP)

Hint: Refer - Disclaimer of Opinion in SA 705 Keeping in view the above, the auditor should issue a disclaimer of opinion in the case of ABC Ltd.

- 5) When the auditor disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the description of the auditor's responsibilities required by SA 700. Explain.
(M21-3M) (M22-RTP)

Hint: Refer - Description of auditor's responsibilities for the audit of the financial statements when the Auditor disclaims an opinion on the financial statements.

- 6) Other matter paragraph is 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.

Hint: Incorrect. 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.

DIVISION 5: IMPORTANT TECHNICAL TERMS (SP)

- 1) **GENERAL PURPOSE FINANCIAL STATEMENTS:** Financial statements prepared in accordance with a general-purpose framework.
- 2) **GENERAL PURPOSE FRAMEWORK:** A financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework. The term "fair presentation framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:
- a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
 - b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.
- 3) **COMPLIANCE FRAMEWORK:** It is used to refer to a financial reporting framework that requires compliance with the requirements of the framework but does not contain the acknowledgements in (i) or (ii) above.
- 4) **UNMODIFIED OPINION:** The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- 5) **OVERSIGHT OF THE FINANCIAL REPORTING PROCESS:** This section of the auditor's report shall also identify those responsible for the oversight of the financial reporting process, when those responsible for such oversight are different from Management. In this case, the heading of this section shall also refer to "Those Charged with Governance" or such term that is appropriate in the context of the legal framework applicable to the entity.
- 6) **GOING CONCERN:**
- Meaning:** The auditor's assessment of the entity's ability to continue as a going concern for a reasonable period, usually not more than one year from the date of the financial statements.
- 7) **DEFINITION OF PERVASIVE:** A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence.

Pervasive effects on the financial statements are those that, in the auditor's judgement:

- i) Are not confined to specific elements, accounts or items of the financial statements.
- ii) If so confined, represent or could represent a substantial proportion of the financial statements.

OR

- iii) In relation to disclosures, are fundamental to users' understanding of the financial statements.

8) **SUFFICIENT APPROPRIATE AUDIT EVIDENCE:****SUFFICIENT:** The quantity of audit evidence obtained by the auditor.**APPROPRIATE:** The quality of audit evidence obtained.**CONCEPTS THAT ARE RESHUFFLED**

S.NO.	TOPIC / CONCEPT	COVERGAE IN ICAI STUDY MATERIAL	COVERGAE IN MASTERMINDS MATERIAL
1)	GENERAL PURPOSE FINANCIAL STATEMENTS.	AUDIT REPORTING	FUNADAMENTS, NATURE, OBJECTIVES & SCOPE OF AUDIT.
2)	GENERAL PURPOSE FRAMEWORK	AUDIT REPORTING	FUNADAMENTS, NATURE, OBJECTIVES & SCOPE OF AUDIT.
3)	UNMODIFIED OPINION	AUDIT REPORTING	FUNADAMENTS, NATURE, OBJECTIVES & SCOPE OF AUDIT.
4)	INDEPENDENT AUDITOR'S REPORT (EXAMPLE)	AUDIT REPORTING	BEYOND EXAM STANDARDS
5)	SA 510- INITIAL AUDIT ENGAGEMENTS - OPENING BALANCES	AUDIT EVIDENCE	COVERED IN THIS CHAPTER
6)	SA 610 – USING THE WORK OF INTERNAL AUDITOR	AUDIT EVIDENCE	COVERED IN RISK ASSESMENT & INTERNAL CONTROLS

THE END

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