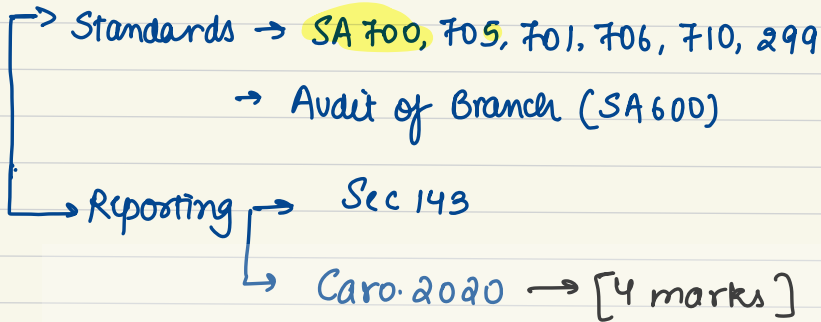


# CHAP-8 AUDIT REPORT

Topics to Cover



Saksham Jain

General purpose framework



General purpose F.S.



" F.S. are prepared & presented for general public "

Special purpose Framework.



Special purpose F.S.



F.S. are prepared & presented for specific users.

(eg. X Ltd make F.S. [Cash basis])  
↓  
Submitted to Bank on their requirement → Avail loan

Fair presentation Framework

Compliance framework



preparation & presentation of F.S. as per applicable FRF [As/IndAs]



Compliance framework

(i). Addition Disclosure, made by entity to achieve fair presentation, beyond requirement of app FRF..

ii). Depart from app. FRF [extremely rare situation], to achieve fair presentation.

## \* Auditor report prescribed by law or Regulation [Special law]

Point-1 No Conflict b/w SA 700 & special law

↓  
follow layout & wording of SA 700.

Point-2 Special law & SA layout & wording different

↓  
• Include points (a) - (m) + requirements of special law

~~Other legal & regulatory~~  
~~Other information~~

• No need to apply other points of a-m

• Auditor report shall refer to SA only if (a-m) points are covered.

## \* Report on Other Legal & Regulatory Requirements

↓  
Reference of Caro, 2020

+

Internal financial Control

+

Sec 143(3)

## SA 705 Modification to the opinion in Independent Auditor's Report

### \* Objective of Auditor as per SA 705

To modify opinion when

↓ (A)

Avatar obtains SAE

↓

F.S. are materially misstated.

(B) ↓

OR when auditor is

unable to obtain SAAE

that F.O.S. are free from material misstatement.

\* Pervasive [ फैला हुआ ]

↓

- not Confined to individual item of ES.  
individual item

- If confined to  $\rightarrow$  impact substantial portion of F.S.

↓

eg. Debtors = 60% of Total Asset

↓

"material misstatement"

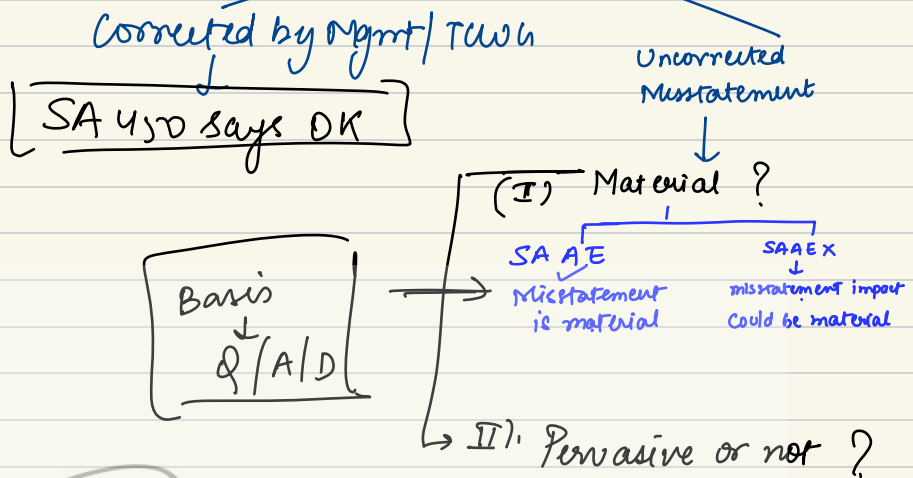
- In relation to Disclosures → fundamental to user's understanding of F.S.

\* Types of Modified opinion

- Qualified
- Adverse
- Disclaimer



Avatar → focus → misstatement



i). Qualified Opinion

→ Auditor obtain SAE - Misstatement → material but not pervasive

OR

→ Auditor unable to obtain SAE → Concludes → Misstatement could be material but not pervasive

ii). Adverse → SAE ✓ → Misstatement

↓ effect  
[ material + pervasive ]

iii). Disclaimer → SAE X → Undetected misstatement  
↳ possible effect - could be material & pervasive

(1) SAAE ✓ → Material → Qualified

(2) SAAE ✓ → Mat + Pervasive → Adverse

(3) SAAE X → possible effect → Material → Qualified

(4) SAAE X → " " → M + P → Disclaimer

position of  
no  
opinion

\* Mgmt Imposed limitation → Auditor unable to obtain SAAE

Req. Mgmt to remove limitation

No

Yes

OK

Req. TCWG to remove limitation

Yes

OK

No

Case (A)  
unable to obtain SAAE &  
conclude possible effect of  
misstatement could be

Material

Qualified

Case (B)  
unable to obtain SAAE &  
conclude possible effect of  
misstatement could be

Material + Pervasive

[Refer Note 1]

Refu Note - I → [Mat + Pervasive]  
↓

option of withdrawal from engagement  
[Not by reason to TCW as well as  
impact of misstatement]

↓  
if withdrawal not possible → "Disclaimer"  
of opinion

Saksham Jain

# SA-701 Communicating Key Audit Matter in Independent Audit Report



Key Audit Matter →

Auditor  
↓  
(Professional  
Judgement)

- Auditor to include those matters which are most significant during the Auditor  
↓
- Auditor includes heading "Key Audit Matters"
- These matters are selected from matters communicated to TCWG.
- Auditor also communicate how they were addressed during audit.
- Purpose of Key Audit Matter  
↓
  - \* Add Communicative value to Auditor's report by providing greater transparency.
  - \* Assist users of auditor in understanding matter which were most significant during the audit.
  - \* Assist users in — understanding entity & Areas of Mgmt Judgements

## \* When to Include Key Audit Matter ?

- Mandatory in or case of listed entity.
- If mandated by law or regulation or
- In other case, if auditor think so, he can include.

Note- If Auditor issued "Disclaimer of opinion".



no KAM to be issued  
(unless law & regulation say)

## \* Key Audit Matter is not a substitute of

- Disclosure req. by applicable FRF for preparation & presentation of FS, by mgmt.
- Modification in Independent Audit Report as per SA 705.
- "MURGI" → in case of Material uncertainty exists relating to event & condition that can cast significant doubt on entity's ability to continue as going concern.  
↓  
"Material uncertainty related to going concern"  
Para 4  
\* adequate disclosure is made by mgmt

## D). Seperate opinion on Individual Matters

↳ (Hint - SA 706)

\* Which Matters are KAM?



Auditor select matters from Matters already communicated to TCW



Auditor → Professional Judgement



Factors Considered

- i). Areas of High ROMM or Areas of Significant Risk [SA 315]
- ii). Areas of Auditor judgement in addressing areas where mgmt judgement is significant. [A/c estimates]
- iii). Impact of Significant event & transaction during year on Audit.  
[eg. → ITC → Demerger]

SA 706 Emphasis of Matter Paragraph  
& (EOM Para)  
Other Matter Paragraph  
(OM Para)

in  
Independent  
Audit Report

\* Emphasis of Matter Para [EOM Para]

Matters already presented or Disclosed in F.S.

Auditor → These matters are fundamental to understanding of F.S. for user.

↓  
"Include EOM Para" → in Independent Audit Report

Example → Legal Case Disclosure done by X Ltd.

Auditor thinks this matter is very imp for user to understand fundamental of F.S.

↓  
Auditor includes EOM Para referring note of F.S. where matter is already presented or disclosed.

↓  
No separate opinion is given on EOM Para Matter.

↓  
Auditor opinion → not modified in matters presented in EOM.

↓  
It is not compulsory for Auditor to include EOM Para.

\* Example → Suppose Auditor Has modified opinion in Matter relating to Pending legal issues



In such cases, Auditor will not include EOM for matter which attracted modification



Auditor can include, [Other than matter in which modified opinion was given], in EOM Para

\* EOM Para is not a substitute for following

- Disclosures req. by applicable FRF to be done by Mgmt.
- Modified opinion as per SA 705.
- Disclosures relating to Going Concern [MORH], when material uncertainty exists, and adequate disclosure is done by mgmt.



Special case for MCO.

SA 560 Subsequent event



Case I - Date of F.S. ← ————— → Date of A.R.

fire - Inventory loss



(Non-Adj event)

Entity → Disclosure ✓

Auditor may include this in EOM Para if as per his judgement, it is fundamental to user understanding of F.S.

Case II) → Subsequent event after Date of A.R. requiring amendment in F.S.



"Compulsory include in EOM Paragraph"

Special Case - Key Audit Matter & EOM Para

SA 260 → Matters



Importance for Audit



Auditor select & include in Key Audit Matter.



Include when imp for fundamental for understanding of F.S. for users.

What if → particular matter - imp for audit as well as imp for user understanding



Include in KAM

[Addition Description may be given if req]

## \* Other Matters Paragraph



Matters other than matters presented or Disclosed in F.S



Auditor to include matters which are not P/D for user understanding of Audit, Audit Report

EX - P.Y. Audit was done by predecessor auditor.



Auditor decided to include that in 'OM Para'

EX → SA 299 Joint Audit  
X Ltd was audited together by CA Saksham Jain (Firm<sub>1</sub>)  
CA Abhishek (Firm<sub>2</sub>)

Common Audit Report → Include OM Para



Joint Audit done by  
CA Saksham Jain  
&  
CA Abhishek...

## Emphasis of Matter Para

↓  
Matter already presented or Disclosed in F.S.

↓  
Auditor Includes → Uses understanding of F.S.

## Other Matter Paragraph

↓  
Matter not presented or Disclosed in F.S.

↓  
Auditor 'OM Para' → Better understanding of  
audit, audit report, and auditor responsibility.

## Audit Strategy

↓  
Establishing overall audit

( Chap. 2 )

→ Scope, Timing, Direction

→ Resources, Results of Preliminary engagement

develop  
of  
overall  
audit  
plan

# SA 299 Joint Audit

Reliance Ltd → Audited by   
↳ Chartered & SHAH   
↳ Deloitte

Joint Audit → pooling together resources & expertise of more than one CA Firm of Auditors.

## \* Special Considerations in Carrying out Audit by Joint Auditors

i). Planning Audit → Engagement partners & other key audit members are involved from Joint Audit team

ii). Jointly establish Overall Audit Strategy

iii). Discuss & Develop Joint Audit plan [Refer Note:1]

iv). Discuss & Document   
- Nature   
- Timing   
- Extent of Audit Procedures for

Common Audit Areas

Individual Audit Areas.

v). Engagement letter   
Mgmt Representation letter → Common

vi). Work Allocation Document → Signed by Joint Auditor   
+   
Communicated to TCWG.

\* Note.1 Points to Be Considered in Developing Joint Audit Plan  
[Chap. 2 Establishing Overall Audit Strategy]

- i). Identify Division of Audit areas & common audit areas. to ascertain scope of engagement.
- ii. Ascertaining reporting objective of engagement to plan timing of audit.
- iii). Considered & Communicate among J.A. factors significant in directing the engagement team effort.
- iv). Considered results of preliminary engagement activities or similar engagement performed.
- v). Ascertain Nature, timing & extent of Resources necessary to perform engagement.

\* Reporting

- Common Audit Report.
- If in Disagreement in opinion or any matter, issue separate Audit Report.

Reference to each other Report - "OM Para"

↓  
Reference to  
Other Auditor  
Report.

## \* Areas of Joint Responsibility

i). In respect of work divided among J.A.

↓  
Each J.A. responsible for Work Allocated to Him.

ii). Joint Auditor shall be jointly & severally responsible for following cases

- a). Work → not divided & carried out by all J.A.
- b). Decisions taken by all J.A. under planning in respect of common audit areas.
- c). Matters → Brought attention <sup>to</sup> all J.A. by any one of them  
↓  
Agreement by all J.A.
- d). Examining → F.S. → comply with relevant statutes.
- e). Presentation & Preparation of F.S. → reg. by applicable FRF.
- f). Ensuring Audit Report → comply with — S.A.  
— Audit pronouncements.

# AUDIT of BRANCH & SA 600

Sec 128(1)

Every Company → prepare & keep BOOK of A/c + Other Relevant papers

accrual Basis  
true & fair view

↓  
At Registered office

→ If kept at other place decided by Board

↳ within 7 days inform Registrar  
(Notice)

Sec 128(2) Branch office

Deemed to comply with Sec 128(1)  
if

- proper Books maintained at Branch

+

- periodical return submitted [Summarised]  
by Branch to Company.

## Auditor of Branch

Branch in India

either by

- Company Auditor  
or

- Any other Qualified Auditor  
Sec 139.

Branch o/s India

either by

- Company Auditor  
or

- By an Accountant  
or

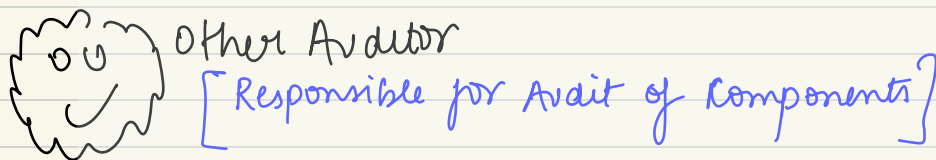
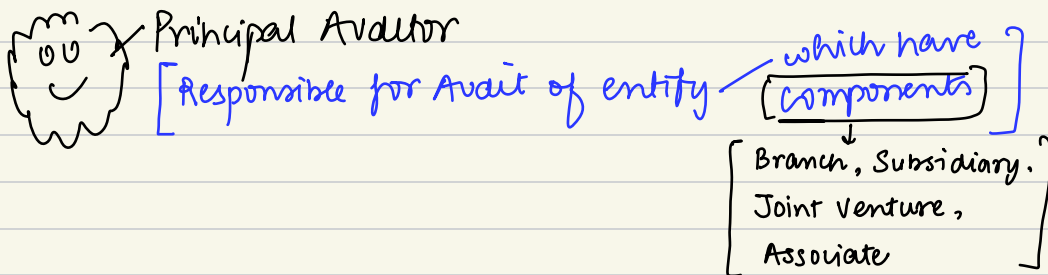
Any other person

Qualified to Act as Auditor

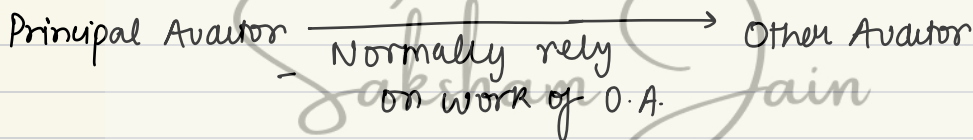
[in Accordance with law]  
of that country

[used by  
P.A.]

## \* SA 600 Using Work of Another Auditor



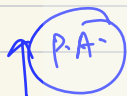
### Overview



- In special circumstances

P.A. → Can visit Components

→ can examine B.O.A of components



## \* Audit Procedure when using work of Other Auditor

a). Advise O.A. what? Use of O.A. work & report by P.A.

Sufficient Arrangement — Coordination — from planning stage.

P.A. → Inform → O.A. — Matter req. special consideration

- Time-Table for Completion of Audit

- procedure for Identification of

inter Component transactions  
(that req. Disclosure)



b). P.A

Advise

O.A

— Significant Accounting  
Auditing  
&

Reporting Requirement

Comply with them.

c). P.A → meet → O.A.

get knowledge of competence of O.A.

↓ Review of previous audit work  
of O.A.

N.T.E. of Principal Auditor will depend upon

- Circumstances of engagement
- P.A. view abt competence of O.A.

SA 710

## Comparative Info

Corresponding figures

Comparative financial statements

## \* Comparative Information

	CY 25-26	PY 24-25	→ Comparative Info
PPE	XX	XX	↓
C.A	XX	XX	Amt & Disclosures of P.Y. [1 or more]
			included in C.Y. f.s.

## \* Objective of SA 710

a). To obtain SAAE → whether Comparative Information include in f.s. → presented as per applicable FRF

b). To Report as per auditor's responsibility.

## \* Audit Procedure regarding Comparative Information

- Auditor to determine → whether f.s. include comparative info.  
&  
→ whether such info is properly classified

- Auditor to evaluate whether

- Comparative Info AGREES with amt. & disclosure → Presented in Prior Period.

- A/c Policies reflected in Comparative Information

- are consistent with applied in CURRENT PERIOD

OR

- If changes in A/c Policy → whether properly
  - Accounted
  - Presented
  - Disclosed



- Info while doing C.V. Audit

Perform "AAP" to obtain SAAE whether material misstatement exists-

- If Auditor had audited prior period, F.S.:  
↳ follow requirement of SA 560.

## \* Two approach of Comparative Information

(A) Corresponding figures

B) Comparative Financial Statement:

a). Corresponding figures

FY 25.26

C. 4 year

FY24.25

### Comparative Info

corresponding figures

Auditor opinion shall not refer to corresponding figures EXCEPT in following cases

1). last year Auditor <sup>has</sup> given modified opinion & matter against which modification was given

---

Resolved Unresolved.

## Resolved

↓  
OK

Unresolved.

- Modify opinion of  $\downarrow$  C.V.
- Basis for opinion (Note 1)

Note-1 - Basis for opinion.



Matter affect C.Y. F.S. materially

Yes

No

↓  
Basis → Refer to both C.Y. & corresponding figures.

↓  
Basis → Refer to only corresponding figures ↓

C.Y. opinion modify due to comparability issue b/w C.Y. & corresponding figures.

Case:  
ii Last year opinion was unmodified & auditor obtain SAE that corresponding figures have material misstatement



Auditor to verify whether treatment done in C.Y. [Prior Period item in P&L]



If not corrected → Qualified or Adverse opinion

Basis for opinion : [corresponding figures - m.m.]

Case-3:

Prior Period F.S. not audited

→ Include OM Para (SA 701)

→ SA's responsibility.

Case 4 → Prior Period Audited by Predecessor Auditor



Include OM Para giving description of

- Audit done by predecessor auditor
- Date of Audit Report
- Opinion given [modification]

Reason hai batana

b). Comparative Financial Statement

FY 25-26

FY 24-25

Ram appointed  
in FY 25-26  
for audit.

Opinion on  
C.Y.

Opinion on  
P.Y. also

Approach to follow → Comparative Financial Statement

\* P.Y. Audit Done by predecessor auditor



Include OM Para — P.Y. Audit done by <sup>de</sup> Predecessor auditor

- Date of A.R.
- Opinion of P.A. → if modified reasons also.

[ Auditor not to include OM Para if Predecessor auditor amend his old Audit Report ]

\* Special point

P.Y. Unmodified opinion by predecessor auditor

C.Y. Auditor finds material misstatement,

What to do?

Auditor → inform Mgmt & ask for amendment  
in F.S. of Comparative F.S.

→ Ask Mgmt to Rq. Predecessor auditor  
to make new/amended Auditor Report

Give opinion on C.Y. F.S.

Miscellaneous points in 2nd approach

i). P.Y. FS not audited → Include OM Para

ii). P.Y. & C.Y. Audit opinion difference in Comparative  
FS

Include OM Para → specify reason