

## Chp 12 Forming an opinion & Reporting →

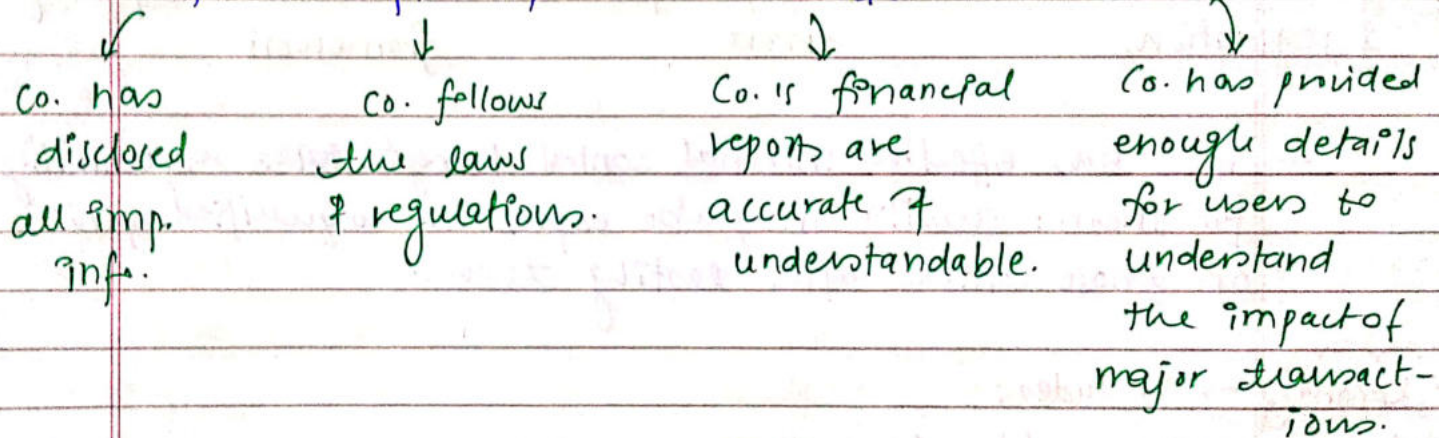
classmate

Date  
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### \* Introduction →

- An auditor, who must be independent from company, forms an opinion based on facts and records gathered during the audit.
- The auditor's report states if co.'s financial affairs are fair & free from major errors.
- opinions can be
  - unmodified (clear report)
  - modified (if there are issues)

- To form an opinion, the auditor checks -



\* CSAS 3 - Auditing Standards on forming an opinion →  
Applicability: <sup>To</sup> The auditors performing audit under any statute.

Objective: ① Guide auditors on how to evaluate audit process and form an opinion./ conclusions.

② Ensure consistency in forming | expressing opinions.

③ Focus on evaluating conclusions made during the audit process.

## \* forms of opinion →

## \* UNQUALIFIED / UNMODIFIED OPINION →

- An unmodified opinion (also called as "clean opinion") means that the auditor believes that the co.'s financial statements are free from any material misstatements and accurately reflect co.'s affairs.

- To issue this opinion, auditor must confirm →

Co. has followed applicable laws & regulations

The co.'s records are correct & free from errors

The co.'s FS are in line with relevant reporting framework.

- if co. has effective internal control & mgt takes responsibility for them: auditor may also express an unqualified opinion on those controls after testing them.

Records → includes:

- ① MOA / AOA / byelaws etc.
- ② minutes, returns, forms, Registers
- ③ Books & papers incl. BOA, deeds, vouchers
- ④ agreements, MOU.
- ⑤ other docs maintained by Auditee in physical  
e form.
- ⑥ correspondence.

These records are mainly for the audit period, but past records/docs from 3<sup>rd</sup> parties may be considered if needed.

**Misstatement** → means : when information is false, incomplete, misleading or omits imp. facts, making the document / statement unclear / inaccurate.

Causes of misstatement :

- ① Data errors : mistakes in gathering / processing info.
- ② omission : missing imp. details.
- ③ misinterpretation : wrong understanding of facts.
- ④ unreasonable judgements : mgt decisions that don't make sense.

\* **MODIFIED OPINION** →

An auditor gives modified opinion when :

↓	↓	↓	↓
co. doesn't follow laws correctly (timing / process)	co.'s records are inaccurate & not law-complaint.	Auditor can't find enough evidence to confirm the co. followed rules.	Auditor can't find enough evidence to confirm the records are accurate.

\* ABC Ltd's secretarial audit for FY 21-22 highlighted these issues :

- ① Board composition : non compliant from 27.12.2021 to 15.03.2022 fixed on 16.03.2022.
- ② Audit committee : non compliant until 15.10.2021, fixed then.
- ③ Risk mgt committee : non compliant until 01.10.2021, fixed then.

All issues were corrected after being identified.

**CHD Developers Ltd** : SEBI took <sup>action</sup> against CHD Developers Ltd for falsely reporting that its auditors gave an unmodified opinion when they actually gave a modified opinion.

- The co. also failed to disclose its audited FS and impact of audit qualifications within 90<sup>60</sup> days.
- SEBI imposed penalties on the co. + officers for these violations.

**Note** → If info. isn't enough for a fair presentation, auditor should talk to mgmt and decide if the opinion needs to be modified. Any modified or disclaimed opinion should be in Italics and Bold.

- BOD must explain any issues raised by CS in their <sup>report</sup>.

\* modified opinion can be of 3 types, based on the severity of the issue :

① Qualified opinion : Given when the auditor highlights specific non-compliance issues, but the co.'s overall affairs are still fairly presented, with a brief explanation of why a clean opinion is not possible.

② Adverse opinion : Issued when the auditor concludes that the co.'s affairs are significantly misstated (a) do not comply with laws. This opinion suggests serious issues, such as fraud and may require corrective action.

③ Disclaimer of opinion : Given when the auditor is unable to access necessary records (or) faces other issues (eg. regulatory problems/natural calamities) and cannot form an opinion on co.'s financial condition.

In all modified opinions / disclaimers : opinion text is shown in Italics / Bold. The auditor's report will include a para explaining the reason for modified opinion / disclaimer.

\* Emphasis on matter - in audit report highlights specific issues that may affect co.'s future. These issues, either +ve / -ve, should be significant for readers to understand the co.'s situation.

Examples of matters of EOM include :

- legal uncertainties / ongoing litigation
- uncertainty about future events / pending legal cases
- adoption of <sup>new</sup> tech.
- changes in regulatory environment
- major impact of catastrophes (natural calamities, events)
- early appl<sup>n</sup> of new accounting standards.

These issues should be ideally disclosed in director's report / mgmt discussion and analysis. If not - auditor may include them in Audit Report.

\* materiality →

refers to significance of an amt. / transaction or discrepancy in co.'s financial records.

- Goal of an audit: Determine if fs are presented <sup>fairly</sup> in line with reporting framework like GAAP.

- It represents level of omission / misstatement that could influence the decision making of someone relying on the financial information.

- Auditor must ensure that material items are properly disclosed in co.'s records.

- key points about materiality include:

① Judgement based: what is considered material depends on auditor's professional judgement & specific circumstances.

② Impact on decision making: Info. is material if its omission / misstatement would affect the judgement of someone using financial statements.

③ Inverse vs with audit risk: The higher the materiality level, the lower the audit risk and vice-versa.

- Auditor must consider following factors while forming an opinion - (Principles)

principle of completeness

Review all relevant evidence.

principle of objectivity

ensure report is fair & accurate

principle of timeliness

finish report on time.

principle of contractual duty process

check facts & include responses from them

## \* process of forming an opinion →

forming an audit opinion is a crucial process where the auditor evaluates their findings & presents the results in audit report. This process ensures that it complies with relevant laws.

- Auditor must follow the below mentioned principles:

① Completeness: Gather all necessary evidence & ensure it is accurate & valid before forming an opinion. Only discard contradictory info. after review.

② Objectivity: The Auditor must stay unbiased & independent, ensuring the findings are based on all relevant facts. They should question the info. provided & verify if using other resources.

\* Threats to objectivity → These are situations that may compromise an auditor's independence & impartiality. Auditors should identify these threats & take steps to manage them using safeguards.

Common threats include:

① Self-interest threats → When the auditor's personal interests, like financial gain conflict with their professional role.

② Self-review threats → occur when the auditor has to review their own previous work, making it hard to remain objective.

③ Advocacy threat → happens when the auditor takes a side in an issue, such as acting as an advocate for the client.

④ familiarity / trust threat → When the auditor becomes too familiar / trusting with the client, potentially leading to biased judgements.

⑤ Intimidation threat → occurs when the <sup>auditor</sup> feels pressurized by the client, especially if the client is dominant / threatens to switch auditors.

\* Auditors should develop certain qualities & follow procedures to safeguard against threats to their objectivity →

① Integrity & objectivity - Auditors must act with integrity & strive for objectivity in all decisions. They should set aside personal biases & maintain high ethical standards.

② Peer pressure for integrity - Auditors should have strong internal peer pressure within their firms to ensure everybody upholds integrity & reputation.

③ Internal procedures & controls - firms should have systems in place to ensure difficult judgements are supported by collective views, reducing risk of litigation.

④ Timeliness - Auditors must stick to agreed deadlines & document any delays with reasons.

⑤ Contradictory process - When facts conflict, auditors should gather more evidence to resolve the issue. If contradictions remain, they should clearly state them in the report.

## \* Judgements, Clarification & conflicting interpretation →

**Judgements** - Auditors use court rulings to correctly interpret legal terms, like definition of "loan".

**Clarifications** - If laws are unclear, auditors refer to clarifications from govt. bodies / authorities.

**Conflicting views** - If there are differing opinions, auditors should consult legal rulings or official clarifications to resolve conflicts.

## \* Role of precedence & practices →

**Precedence & practices** - Auditors consider past methods & industry standards when forming an opinion.

**Audit methods** - Auditors use practices like sample selection based on firm size & ensure an unbiased approach in audit process.

## \* limitation on audit scope →

If appointing authority imposes a limitation that prevents the auditor from gathering enough evidence:



Auditor should ask the AA to remove the limitation. If refused: Auditor shall inform mgmt & explore alternative procedures to gather evidence.



if evidence is insufficient } if missing evidence is not significant: Auditor will modify an opinion.

if missing evidence is imp: auditor will disclaim an opinion.

→ external factors beyond auditor's control

Causes of limitation

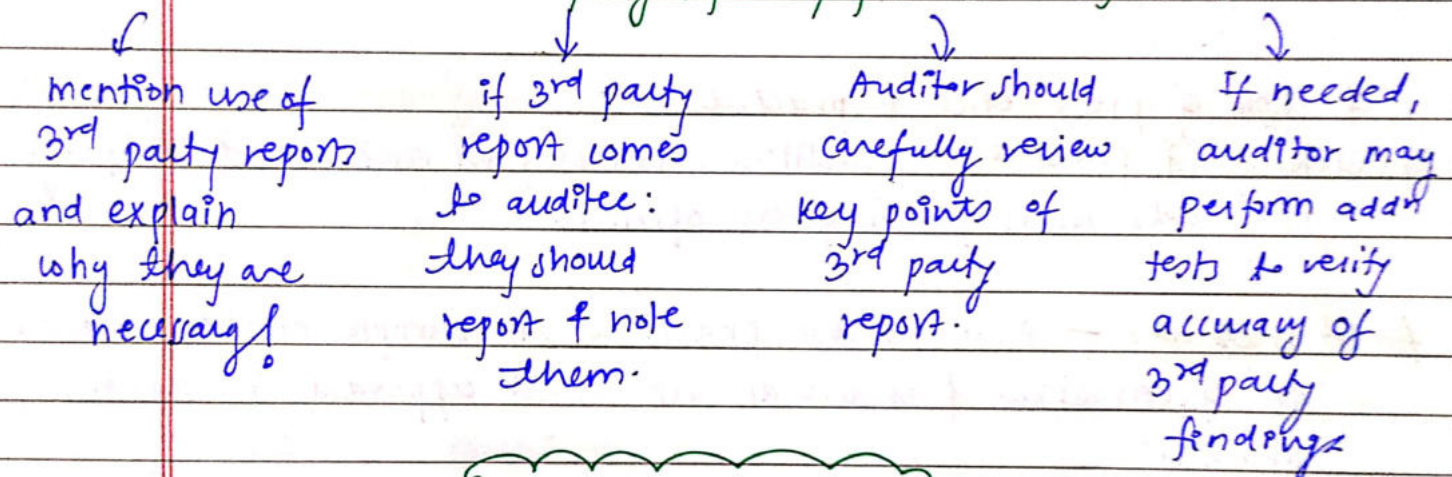
→ limitations from nature / timing of auditor's work  
↳ restrictions imposed by mgt.

- material but NOT pervasive limitations : modify the opinion.

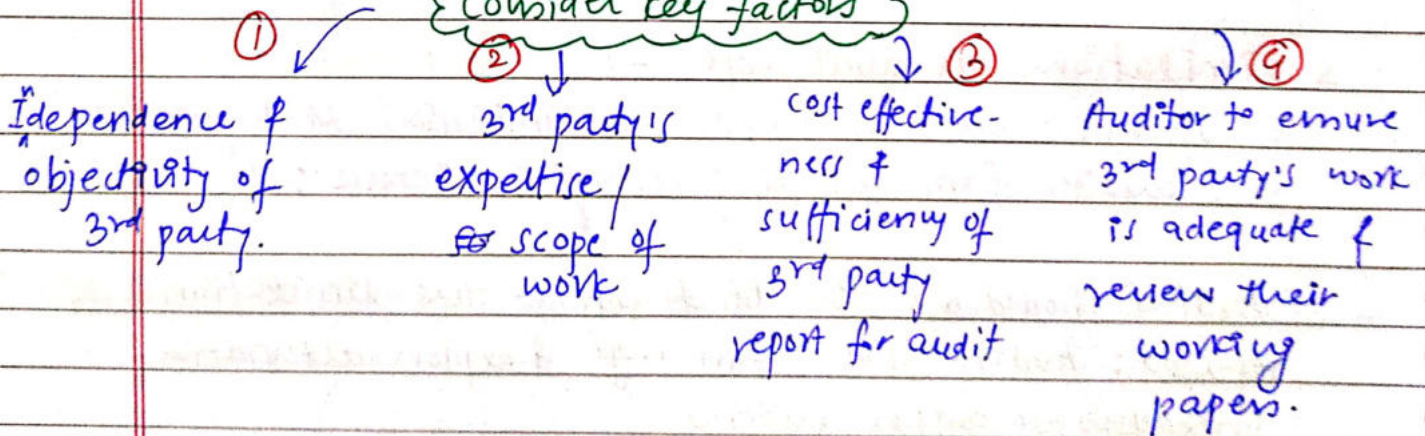
- material & <sup>va</sup> pervasive limitation : disclaim the opinion.

\* 3<sup>rd</sup> party report / opinion →

When auditor relies on 3<sup>rd</sup> party report / opinions they must :



Consider key factors



- if necessary : auditor should discuss 3<sup>rd</sup> party findings and decide if further audit tests are required.

## \* Mgt representation letter →



letter from co.'s mgt to the auditor, confirming certain info. that the auditor cannot directly verify.

- It is usually signed by senior mgt — MD/CS.
- This letter is a part of audit evidence but doesn't replace the auditor's own checks. Auditor must still verify facts where possible and not to rely only on the letter.

## \* Specimen of mgt representation letter →

Date:

To Mr DMD &amp; Co.

Company Secretaries

ABC Road, India.

Subject: Secretarial audit for year ended 31<sup>st</sup> March, 2025.

Dear Sir,

This letter is provided in connection with your audit of our company's secretarial records as required under various laws for year ending 31<sup>st</sup> March' 2025. We acknowledge our responsibility for maintaining required records and confirm the following:

## Company law compliance:

- Books of A/c maintained as per law.
- We have followed secretarial Standards
- Statutory audit & other audits have been conducted.
- No share transfers except as recorded.
- Statutory registers were available for public inspection
- Notice & agendas of BM were sent to BOD.
- Dissenting director's views were recorded in minute book.
- Draft & final minutes were sent to all Directors.
- any changes in MOA/AOA were recorded.

### Securities law :

- price - sensitive info. was provided to STX
- Investor complaints were recorded promptly.
- Complied with SEBI (LODR) Regulations.

### Labour laws :

- All establishments are registered as required.
- No child / bonded labour
- Compliance with PF / ESI for contract workers is ensured.
- Internal complaints committee meetings were held.

### Environmental laws :

- No discharge of polluted water
- Hazardous waste disposed as per regulations.

### Competition laws :

- Competition Act 2002 complied.

We confirm that all relevant information has been provided and access to records has been given.

Date :

Place :

[For Keifer Ltd.]  
Director

\* opinion from mgmt →

↓  
If auditor has concerns, co. can provide responses, sometimes supported by 3rd party opinions.

↓  
The auditor should assess whether these 3rd party opinions are reliable.

↓  
Co. should explain any concerns in Director's report.

## \* Exit conference →

Before finishing the audit, auditor should meet with co.'s mgt.

Audit findings should be shared in advance to discuss & clarify any issues.

## \* Evaluation of Audit Evidence &amp; forming opinion →

- Auditors base their opinion on the evidence collected, which must be reliable & sufficient.

- While collecting the audit evidence, auditor should consider the following:

① Documentary evidence: more reliable than oral.

② Personal knowledge: most reliable when the auditor directly observes it.

③ External evidence: more reliable than internal, if truly independent.

④ Visual evidence: Good for confirming asset evidence, but not value/ownership.

⑤ Oral evidence: least reliable, should be backed up by documentation.

⑥ Internal info: Reliability depends on the co.'s internal control.

⑦ Photocopies: less reliable than originals.

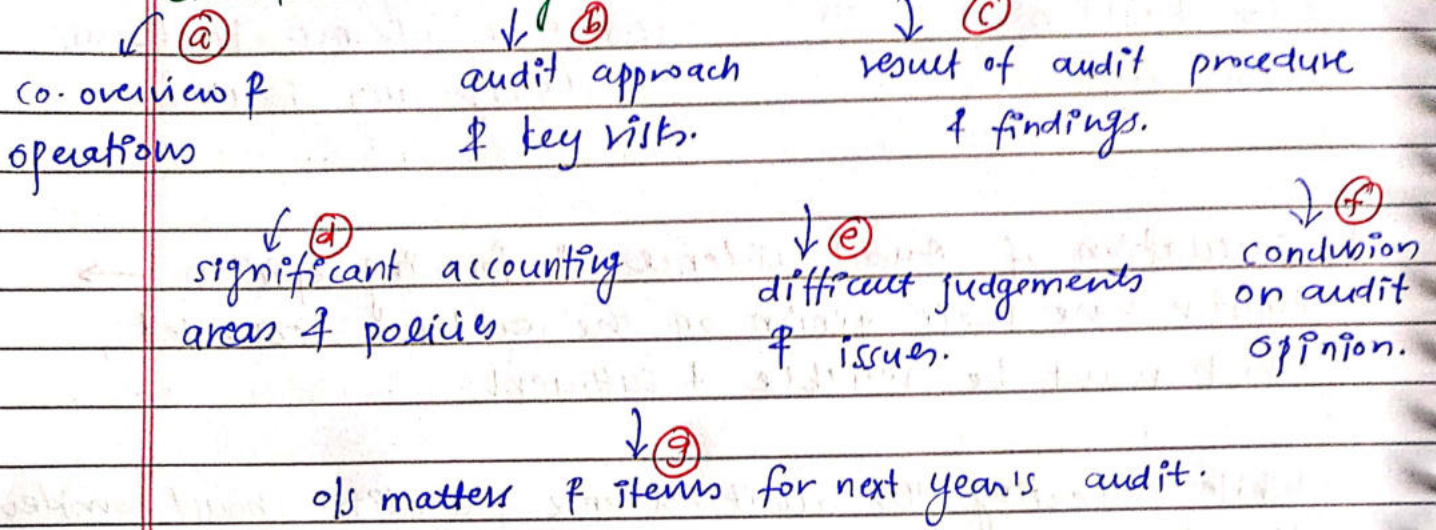
⑧ Accepted evidence: Reliable if co. accepts it.

⑨ Consistent evidence: more confidence when evidence from different sources match.

## \* Showing draft report with mgt with category of risk involved with each remark &amp; qualification →

- After completing the audit, auditor prepares an executive summary highlighting key findings, risks & agreed adjustments. The audit certificate is signed by both the auditor & mgt.

- Executive Summary includes :



Stages of communication :

- ① **preliminary draft** - auditor shares the 1st draft with mgt. for feedback
- ② **Exit meeting** - auditor & mgt discuss findings & reach to an agreement.
- ③ **formal draft** - auditor ~~revises~~ revises the draft based on feedback.
- ④ **final report** - final reported is submitted to the relevant authorities.

\* Auditor's Responsibility →

" Auditor's Responsibility " section in Auditor's Report explains the Auditor's role and the audit limitations.

Key points :

Auditor's job is to give an opinion on whether the co. follows laws & keep accurate records.

audit is done according to auditing standards, aiming to provide reasonable assurance about compliance.

Audits have limitations, such as internal controls, so some issues may not be detected.

↓  
auditors check if for risks of misstatements / non-compliance based on company's records.

### The Report covers

↓  
whether  
audit  
followed  
required  
standards.

↓  
whether co.'s  
records are  
free from  
misstatements.

↓  
The auditor's  
opinion is based  
on evidence &  
info. provided  
by company.

↓  
whether the co.  
complied with  
applicable laws  
& regulations.

### \* format of report →

- The Audit report is addressed to appointing authority (eg. BoD / regulators etc), unless otherwise stated.
- The report should be detailed / precise including findings on compliance, non-compliance & suggestions for improvement.
- If report format is not enough : add<sup>n</sup> info. can be added in annexures.
- Include audit firm's name, auditor's name, COP no., membership no. and whether the auditor is an (associate / fellow).
- state the date & place of signing. If signed by different auditors at different times, this should be mentioned.
- For secretarial Audit reports : peer review certificate no. must be included as per ICSI guidelines.

Example signature format :

For DMD & Associates  
Company Secretaries  
Name \_\_\_\_\_  
FES \_\_\_\_\_  
CP \_\_\_\_\_

Date :

Place :

\* Pre-requisites for reporting →

An audit report should be :

- ① Accurate : Free from errors, reflecting true facts.
- ② Objective : fair & unbiased, based on balanced assessment of all relevant info.
- ③ Clear : Easy to understand, without unnecessary technical terms.
- ④ Concise : To the point, avoiding excessive details/ repetition.
- ⑤ Constructive : Helpful for the client, leading to improvements wherever needed.
- ⑥ Complete : Includes all essential info. and observations to support conclusions & recommendations.
- ⑦ Timely : Delivered promptly, allowing mgt to take corrective action if needed.

## \* Submission of Audit Report →

After reviewing mgmt's plan, replies, auditor prepares the report.

Report must be addressed to members but submitted to the Board.

It states if the co. is complying with applicable laws, with <sup>(a)</sup> without qualifications.

## \* Signing of Audit report →

Report is signed by auditor / audit firm.

for secretarial audits, report must be signed by secretarial auditor with their ACS / FCS and COP no.

for PCS firms, only a partner can sign, not employees, even if they hold COP.

## \* Reporting with Qualifications →

- any issues / qualification / adverse remark should be highlighted in BOLD / ITALICS.
- If auditor cannot form an opinion on a matter, they must clearly state this and explain why.
- If the auditor's work is restricted (due to unavailable docs / external factors) - mention this in Audit report.
- If limitations prevent the auditor from forming an opinion - they must state that they cannot report on compliance due to lack of necessary info.
- BOD must explain any qualifications / remarks made in secretarial audit report in their own report, as required by Co. Act, 2013.

↓ ABC Ltd appointed DMD & Co. as its Secretarial auditor for FY 2025 - 26. The audit report found :

### ① Board composition :

- Co. did not have enough ID, including a woman ID until 13<sup>th</sup> Nov, 2023.
- After 14<sup>th</sup> Nov, 2023 co. appointed required ID / woman ID. and became compliant.

### ② Audit & Nomination Remuneration Committee :

- Audit committee & NRC lacked the requirement of 2 ID till 13<sup>th</sup> Nov, 2023.
- No AC meetings were held from 1/04/2023 to 13<sup>th</sup> Nov, 2023. Instead, Board handled key tasks.
- In short ABC Ltd was non-compliant, but took steps to become compliant.