

SA-700: Forming an Opinion & Reporting on Financial Statements

Objective of Auditor: Forming an opinion on the FS based on conclusion drawn from evidence obtained & Expressing clearly the opinion through Written Report.

General Purpose Framework

Fair Presentation Framework

Example: Reliance Company Audit

↳ Audit Procedures

- ↳ S&A
- ↳ Evaluate
- ↳ Opinion



Compliance Framework

↓

Reliance → FS are prepared as per applicable FRF i.e.

Compliance Framework

→ opinion only on compliance

Opinion

- Consider S&A Audit Evidence
- uncorrected Mis-statement
- Disclosure in FS
- Accounting Policy
- Accounting Estimate
- Reliability of Financial Information
- Terminology used

- overall Presentation, structure & content
- FS Represent underlying Transaction

Opinion

- ✓
- ✓
- ✓
- ✓
- ✓
- ✓
- ✓

✗

✗

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Expression of Opinion —

- ↳ unmodified Opinion SA-700
- ↳ Modified Opinion SA-705

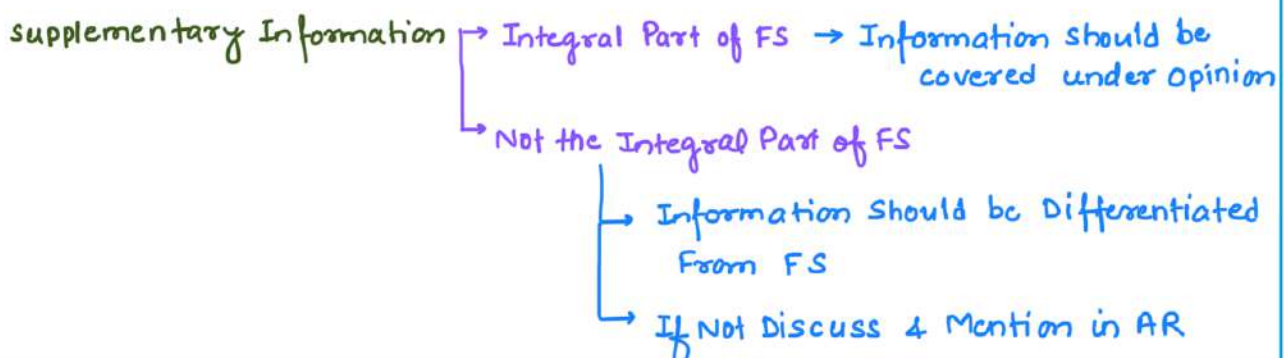
SA-700 (Part 2)

⇒ Content of Audit Report

1. Title
2. Addressee
3. Auditor's Opinion
 - 3.1
 - Identify Entity
 - FS Audited → Date & Period
 - Component of FS
 - Notes
 - 3.2
 - FRF Framework
 - Compliance Framework
4. Basis for Opinion
 - SA's Follow
 - Auditor Responsibility
 - Ethical Requirement
 - S&A Audit Evidence Obtained

SA 200
5. Going Concern
6. Key Audit Matters (SA-701)
7. Responsibility for the FS (SA-210- same point)
 - Prepare the FS
 - Internal Control
 - Going Concern
 - FS giving True & Fair View
8. Auditor's Responsibility
 - Objective (SA-200)
 - Reasonable Assurance
 - Mis-statement
 - ← Fraud
 - ← Error

In the Body of AR
OR In the Appendix
OR Website
9. Other Reporting Responsibility
10. Signature of Auditor
11. Place of Signature
12. Date of the Audit Report



Unmodified Opinion:

When The Auditor concludes that Financial Statements are prepared in all Material Respects, in accordance with applicable FRF.

Basis for unmodified Opinion:-

(a) In case of Fair Presentation Framework:-

In our opinion, The accompanying Financial Statements present fairly, in all Material Respects in accordance with Applicable FRF, DR.

(b) In case of compliance Framework:-

In our opinion, The accompanying Financial Statements are prepared in all Material Respects in accordance with Applicable FRF.

Basis for Opinion:-

The Auditor's Report shall include a section, Directly Following the Opinion Section, with the headings "Basis for Opinion", that:-

- (a) State that the Audit was conducted in accordance with standards on Auditing.
- (b) Refers to the section of Auditor's Report that Describe the Auditor's Responsibilities under the SA's.
- (c) Includes a statement that the Auditor is independent of entity in accordance with the Relevant Ethical Requirements Relating to the Audit, & 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.
- (d) State whether the Auditor believes that the audit evidence the auditor has obtained is sufficient & appropriate to provide a Basis for Auditor's Opinion.

Going Concern Para (SA-570)

As per SA-570 "Going Concern", if events OR conditions have been identified that may cast significant Doubt on the entity's ability to continue as a Going concern, The Auditor shall obtain SAAE to determine whether or not a Material Uncertainty exists Related to events OR conditions, that may cast significant Doubt on entity's ability to continue as a going concern through performing additional Audit procedures, including consideration of Mitigating Factors.

SA-701: Communicating Key Audit Matters in the Independent Audit Report

1. KAM:- Most significant Matters out of Matters communicated to TCWG
- ↳ Applicable to - Listed Co. (Mandatory)
 - Auditor wants to apply
 - Laws & Reg. Required

2. Purpose of KAM:-
- Enhance communicative value & Provide Greater Transparency
 - Provide Additional Information to Intended users
 - Assist to users for understanding significant Management Judgement

3. KAM is not substitute For

Disclosure in the FS Relating to Applicable FRF	unmodified Opinion (SA-705)	Reporting under SA-570	Opinion on Individual Matters
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Only Reference can be given in KAM section.

4. Determination of KAM

- ↳ Matters Communicated to TCWG & Consider
 - ROMM as per SA-315.
 - Significant Judgement & Estimates
 - Effect on significant Events & Transaction

Auditor should Disclose in Audit Report

- ↳ why The Matter consider KAM
- ↳ Has Matter Addressed in Audit

⑤ Matter Determined to be KAM but not Communicated in the Audit Report.

- only Two cases
- ↳ Law & Regulation Precludes Public Disclosure
 - ↳ Auditor Determine Adverse Consequences

Auditor should Document the Rational in his work Paper if Not Disclosing KAM in Audit Report.

communicate with TCWG

& Documentation

- ↳ why Matter is KAM
- ↳ why Matter not considered KAM
- ↳ If KAM Available but not Disclosed → why?

SA-705:- Modification To The Opinion In The Independent Auditor's Report

Objectives of Auditor:- To express clearly an appropriately Modified opinion on the Financial Statements when the Auditor:-

- (a) concludes, based on the evidences obtained that the Financial Statements as a whole are not free from Material Misstatements,
OR
(b) Is unable to obtain sufficient & Appropriate evidences to conclude that Financial Statements as a whole are free from Material Misstatements.

Types of Modified Opinion

- Qualified Opinion
- Adverse Opinion
- Disclaimer of Opinion

(a) Qualified Opinion:- The Auditor, having obtained sufficient Appropriate Audit evidences, concludes that Misstatements are Material, but not Pervasive.

OR

The Auditor is unable to obtain sufficient Appropriate Audit Evidence on which to base the opinion, but the Auditor concludes that the possible effect on Financial Statements of undetected Misstatements, if any could be Material but not pervasive.

Basis for Qualified Opinion :-

In the Auditor's opinion, except for the effects of Matters described in the "Basis for Qualified Opinion" section,

- (a) The Financial Statements present fairly, in all Material Respects (or give a True & Fair view) in accordance with Fair Presentation Framework, OR
(b) The Financial Statements have been prepared in all Material Respects, in accordance with compliance Framework.

- (b) 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 & pervasive.

Basis for Adverse Opinion:-

In the Auditor's opinion because of significance of matters described in the "Basis for Adverse Opinion Section":

(a) The financial statements do not present fairly (or give a true & fair view) in accordance with the fair presentation framework; OR

(b) The financial statements have not been prepared, in accordance with compliance framework.

- (c) Disclaimer of Opinion:- The Auditor shall disclaim an opinion when he is unable to obtain sufficient appropriate audit evidence & he concludes that the possible effects on the financial statements of undetected misstatements could be both material & pervasive.

OR

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 potential interaction of uncertainties & their possible cumulative effect on financial statements.

Basis for Disclaimer of Opinion:-

When the Auditor disclaims an opinion due to 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 significance of matters 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; &
- (c) amend the statements required by SA 700, which indicates that the financial statements have been audited, to state that the auditor was engaged to audit of financial statements.

Determining Type of Modification:-

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 & Pervasive
Financial Statements are Materially Misstated	Qualified Opinion	Adverse Opinion
Inability to obtain Sufficient & Appropriate Audit Evidence	Qualified Opinion	Disclaimer of Opinion

What is Pervasive ?

Definition of Pervasive:- A Term used, in the context of Misstatements, to describe the effects on 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:-

- ci) Are not confined to specific elements, accounts OR items of the Financial statements.
- cii) If so confined, Represent OR could Represent a substantial Proportion of the Financial Statements, OR
- ciii) In Relation to Disclosures, are fundamental to user's understanding of the Financial Statements.

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SA-706: Emphasis of Matter Paragraph & other Matter Paragraph in Independent Audit Report

EOM Para

1. Para which Refers to a Matter appropriately incorporated in the FS that is such Important that is fundamental to users of FS.
2. Don't include EOM Para if.
 - Opinion Modified because of Matter
 - Matter cover in SA 701 (KAM)
3. Examples of EOM
 - uncertainty Relating to Future outcome of litigation
 - Subsequent Event (SA-560)
 - Early Adoption of AS & Material Effect in FS
 - Major Catastrophe that have Effect on Financial Statement.

OM Para

- Para Relating to Matter other Than Those in Financial Statements → which is Relevant to user's understanding.
- Don't include OM Para if.
- N.A.
 - Matter cover in SA 701 (KAM)
- Examples of OM
- Reporting on More than one set of FS
 - ↳ IND-AS
 - ↳ IFRS | US-GAAP
 - SA-560 - If Not Covered in FS
 - Special Purpose Financial statement
 - SA-710
 - SA-720

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SA-720:- The Auditor's Responsibility Relating to Other Information

(1) Objective:-

- (a) → To consider whether There is a Material Inconsistency b/w:-
 - other Information
 - Financial Statements
 - Auditor's Knowledge
- (b) → To Respond if Material Inconsistency Exist # 2
- (c) → To Report Accordance with SA's. # 3

(2) obtain the other Information:-

- ↳ Through Discussion with Management
- ↳ Obtain Prior to Audit Report, if possible
- ↳ obtain MRL if not possible before The Date of Audit Report
(Management will provide later on)

(3) Auditor's Responsibility:-

- ↳ Read the other Information & link to objectives as discussed.

#2

(4) Respond :- • Discuss with Management Regarding

- ↳ Other Information Materially Misstated
- ↳ Financial Statement is Materially Misstated

- If Necessary, Perform other Audit Procedures
- update Auditor's understanding of The Entity & Environment.
(SA-315)

(4.1) Auditor concludes that a Material Misstatement of the

- ↳ Other Information exists → Auditor should Request Management to

- correct the other Information
- Mgt. agree to make the correction
↳ Auditor will check (OK)
- Mgt. Refuse to make the correction
↳ Talk to TCWG & Req. for correction

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Other Infⁿ obtained Prior to Date of Audit Report & TCWG not corrected

- ↳ Auditor shall take Action

- Implication in Audit Report
- Communicate TCWG about wording in Audit Report
- withdrawal from engagement if possible

Mgt. Misstatement exist & Infⁿ obtained after the Date of Audit Report

- ↳ Auditor shall Discuss with TCWG

Other Infⁿ corrected

- ↳ Perform Audit Procedure Necessary in this circumstance

Other Infⁿ not corrected

- ↳ Take legal Action & Appropriately Brought This Attention to user's OF FS.

#3
(5) Auditor Reporting:-

- Audit Report will include a separate section

↳ Heading → "other Information" OR "other Appropriate heading"

For Listed Entities

Auditor Obtained

Expected to obtain

The other Information

For Unlisted Entities

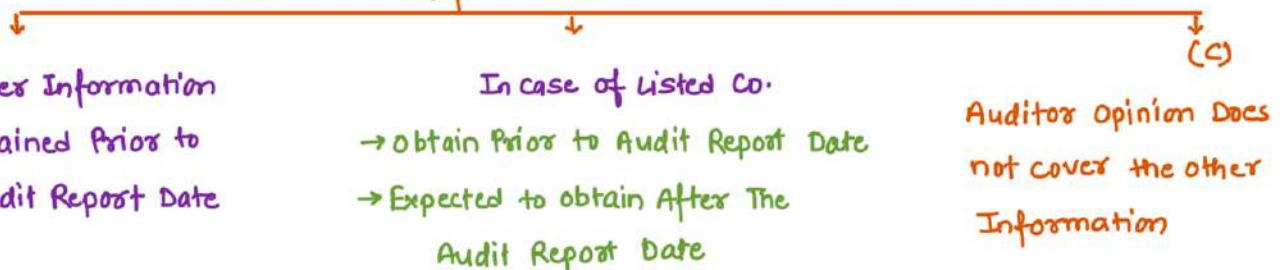
Auditor Obtained

The other Information

- other component of "other Information" section

(a) Management Responsibility

(b) An Identification of



(d) Auditor Responsibility Related to Reading

(e) → If Information obtain Prior to Audit Report Date

↳ statement That Auditor has Nothing to Report

↳ consider SA-705 Effect

→ statement of Uncorrected Misstatement

(6) Reporting Prescribed by Law & Regulation:-

↳ Refrence of SA's only if:-

- Auditor obtain other Information Prior to Audit Report Date
- Auditor's Responsibility
- Statement of Outcome

(7) Follow SA-230:-

↳ Procedure Performed

↳ Final version of other Information

(8) This SA Does not Apply to:-

→ Preliminary Announcements

→ Securities offering Document