

SA 700 Forming an opinion and reporting on FS

Objective: As per SA 700 objectives of auditor are:

- (a) To form opinion on F.S. based on evaluation of conclusions drawn from AE obtained; &
- (b) To express clearly that opinion through a written report

SA 700 applies to audit of complete set of general-purpose FS & is written in that context

General purpose framework	Special purpose framework
Designed to meet <u>common financial info. needs of wide range of users.</u>	Designed to meet <u>financial info. needs of specific users.</u>

Note - Above framework may be a fair presentation framework or a compliance framework.

Fair presentation framework

Is used to refer to a FRF that requires compliance with the requirements of the framework and:

1. **Acknowledges explicitly or implicitly** that, to achieve fair presentation of FS, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
2. **Acknowledges explicitly** that it may be necessary for **management to depart** from a requirement of the framework to achieve fair presentation of the FS.

Such departures are expected to be necessary only in extremely rare circumstances.

Compliance framework

It is used to refer to FRF that requires compliance with requirements of framework, **but does not contain the acknowledgements given in (i) or (ii) above.**

Specific Evaluation by Auditor

- (a) FS **adequately disclose** significant accounting policies selected and applied;
- (b) **Accounting policies selected** and applied are **consistent with applicable FRF and are appropriate;**
- (c) **Accounting estimates** made by management are reasonable;
- (d) **Info. presented in FS** is relevant, reliable, comparable, and understandable;
- (e) **FS provide adequate disclosures** to enable intended users to understand the effect of material transactions and events on the info. conveyed in FS; and
- (f) **Terminology used in FS**, including title of each FS, is **appropriate.**

Forming an opinion on Financial Statements

Auditor shall form opinion on whether F.S. are prepared, in all material respects, as per applicable FRF.

In order to form that opinion, **obtain reasonable assurance** about whether FS as a whole are free from MM whether due to fraud or error.

Further, when F.S. are prepared as per **fair presentation framework**, **also evaluate** as to whether F.S. achieve fair presentation by considering:

- (a) **Overall presentation, structure & content** of F.S; &
- (b) **Whether F.S.**, including related notes, **represents underlying transactions & events** in a manner that achieves fair presentation.

In other words, auditor shall express **unmodified opinion** when auditor concludes that F.S. are prepared, in all material respects, as per applicable FRF.

Basic Elements of Auditor's Report

As per SA 700 "Forming an opinion and reporting on FS", auditor's report shall **be in writing** & shall include following basic elements.

1. **Title:** title that clearly indicates that it is a report of an independent auditor.
2. **Addressee:** Addressed as required by circumstances of engagement.
Ex: - Report could be addressed to **Members of Co.** in case of **general purpose** (statutory) F.S. & to **BOD** in case of **special purpose F.S.**
3. **Auditor's Opinion:** **First section** of auditor's report shall include **auditor's opinion**, & shall have heading "**Opinion.**"
Opinion section of auditor's report shall also:
 - (a) **Identify entity** whose F.S. have been audited;
 - (b) **State that F.S.** have been audited;
 - (c) **Identify title** of each statement comprising F.S;
 - (d) **Refer to notes**, including summary of significant accounting policies
 - (e) Specify date of, or period covered by, each F.S. comprising F.S.
4. **Basis for Opinion:** Auditor's report shall include a section, directly following Opinion section, with heading "Basis for Opinion", that:
 - (a) States that audit was **conducted as per SA;**
 - (b) **Refers** to section of auditor's report that **describes auditor's responsibilities** under SAs;
 - (c) **Includes a statement that auditor is independent of entity** in accordance with relevant ethical requirements relating to audit, & has fulfilled auditor's other ethical responsibilities in accordance with these requirements.
 - (d) **Statement shall refer to Code of Ethics** issued by ICAI
 - (e) States whether auditor believes that **AE** auditor has obtained is **sufficient & appropriate** to provide a basis for auditor's opinion.

5. Going Concern: SA 570

Note: Where use of Going Concern Basis is **appropriate** then **no special paragraph** is required in Auditors Report mentioning the fact.

6. **Key Audit Matters (KAM):** For audits of complete sets of **general purpose FS of listed entities**, **communicate KAM** in auditor's report as per SA 701. When an auditor is otherwise required by law or regulation or decides to communicate KAM in auditor's report, auditor shall do so as per SA 701.

7. **Other Information:** SA 720.

8. **Responsibilities for F.S:** Auditor's report shall include a section with heading "Responsibilities of Mgt. for F.S." This section of auditor's report shall **describe Mgt.'s responsibility** for:

- (a) **Preparing F.S. as per applicable FRF**, & for such **internal control** as Mgt. determines is necessary to enable preparation of F.S. that are free from MM, whether due to fraud or error; &
- (b) **Assessing entity's ability to continue as going concern** & whether use of going concern basis of accounting is appropriate as well as disclosing matters relating to going concern.

Also identify those responsible for oversight of F.S. process.

9. Auditor's Responsibilities for Audit of F.S:

(I) This section of auditor's report shall:

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

(II) Auditor's Responsibilities for Audit of F.S. section of auditor's report shall further:

- (a) To exercises **professional judgment** & maintains **professional skepticism** throughout audit; &
- (b) To describe an audit by stating that auditor's responsibilities are:

1. To identify & assess ROMM of F.S., whether due to fraud or error;
2. To obtain understanding of internal control relevant to audit in order to design audit procedures
3. To evaluate appropriateness of -
 - Accounting policies used;
 - Reasonableness of accounting estimates &
 - Related disclosures made by management.
4. To conclude on appropriateness of Mgt.'s use of going concern basis of accounting
5. When F.S. are prepared as per fair presentation framework, to evaluate overall presentation, structure & content of F.S., including disclosures.

(C)When SA 600, "Using Work of another Auditor", applies, describe auditor's responsibilities in group audit engagement.

(III) Auditor's Responsibilities for Audit of F.S. section of auditor's report also shall:

- (a) State that auditor communicates with TCWG regarding, among other matters:
 - planned scope & timing of audit &
 - significant audit findings,
 - including any significant deficiencies in IC identified;
- (b) State that the auditor provides TCWG with a statement that auditor has:
 - complied with relevant ethical requirements regarding independence &
 - communicate with them all relationships &
 - other matters that may reasonably be thought to bear on auditor's independence, & where applicable, related safeguards;
- (c) For audits of F.S. of all such entities for which KAM are communicated as per SA 701, state that, from matters communicated with TCWG, auditor determines those matters that were of most significance in audit of F.S. of current period & are therefore KAM.
SA 701, auditor describes KAM matters in auditor's report unless
 - ❑ L/R precludes public disclosure about matter or when,
 - ❑ In case, auditor determines that matter should not be communicated in auditor's report because adverse consequences of doing so would reasonably be expected to **outweigh the public interest benefits** of such communication

10. Location of description of auditor's responsibilities for audit of F.S.

Description of auditor's responsibilities for audit of F.S. required by this SA shall be included:

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

11. Other Reporting Responsibilities:

- (a) If auditor addresses other reporting responsibilities in auditor's report on F.S. that are in addition to auditor's responsibilities under SAs, these other reporting responsibilities shall be addressed in a **separate section** in auditor's report with a heading titled **"Report on Other Legal & Regulatory Requirements"** or otherwise as appropriate .
- (b) If other reporting responsibilities are presented in same section as related report elements required by SAs, auditor's report shall **clearly differentiate** other reporting responsibilities from reporting that is required by SAs.
- (c) Heading "Report on Audit of F.S." >"Report on Other Legal and Regulatory Requirements"

12. Signature of the Auditor:

- ❑ Signed by auditor (i.e. engagement partner) in his personal name.
- ❑ Firm - signed in personal name of auditor & in name of audit firm.
- ❑ Membership no.
- ❑ Registration no. of firm

Under Section 145 read with Section 141(2) of the Companies Act, 2013, only person appointed as auditor of co. or, where a firm is so appointed, only partner in firm who is a CA, may sign auditor's report or sign or authenticate any other document of Co. required by law to be signed or authenticated by auditor.

Clause (12) of Part I of the First Schedule to CA Act, 1949

13. Place of Signature: specific location, ordinarily city where audit report is signed.

14. Date of Auditor's Report: dated no earlier than date on which auditor has obtained SAAE

Auditor's Report for Audits Conducted as per both SA Issued by ICAI and ISAs or SA of Any Other Jurisdiction:

Auditor may be required to conduct an audit in accordance with, in addition to SA issued by ICAI, ISAs or SA of any other jurisdiction.

If this is the case, auditor's report **may refer to SA** in addition to ISAs or SA of such other jurisdiction, but auditor **shall do so only if**:

- (a) There is **no conflict** b/w requirements in ISAs or such auditing standards of other jurisdiction & those in SAs that would lead auditor
 - (i) **to form a different opinion**, or
 - (ii) **not to include an EOM Para or OM Para** that, in particular circumstances, is required by SAs; and
- (b) Auditor's report includes, at a **minimum, each of elements set out** in Auditor's Report Prescribed by L/R when auditor uses layout/ wording specified by SA. Auditor's report shall thereby identify such SA.

When auditor's report refers to both, ISAs or auditing standards of a specific jurisdiction & SA issued by ICAI, auditor's report shall **clearly identify same** including jurisdiction of origin of other auditing standards.

Supplementary Information Presented with F.S.

If supplementary info. presented with audited F.S that is **not required** by applicable FRF is -

- (a) Auditor shall evaluate whether supplementary info. **nevertheless integral part of F.S.** due to its nature or how it is presented. When it is an **integral part** of F.S., supplementary info. **shall be covered by auditor's opinion.**
- (b) **Not considered integral part of audited F.S.**, evaluate whether such supplementary info. is presented in a way that **sufficiently & clearly differentiates** it from audited F.S.

If this is **not the case**, then auditor shall **ask Mgt. to change how unaudited supplementary info. is presented.** If Mgt. **refuses** to do so, **identify unaudited supplementary info. & explain in auditor's report that such supplementary info. has not been audited.**

Example:

- When notes to F.S. include explanation or reconciliation of extent to which F.S. comply with another FRF, auditor may consider this to be supplementary info. that cannot be clearly differentiated from F.S. auditor's opinion would also cover notes or supplementary schedules that are cross referenced from F.S.
- When additional P&L a/c that discloses specific items of expenditure is disclosed as separate schedule included as appendix to F.S., auditor may consider this to be supplementary info. that can be clearly differentiated from F.S.