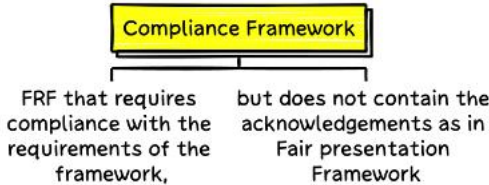
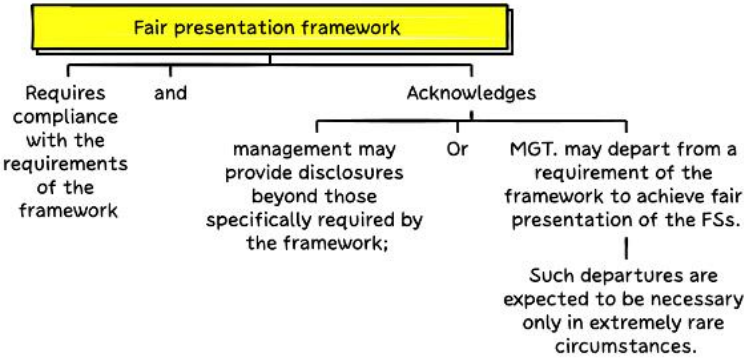
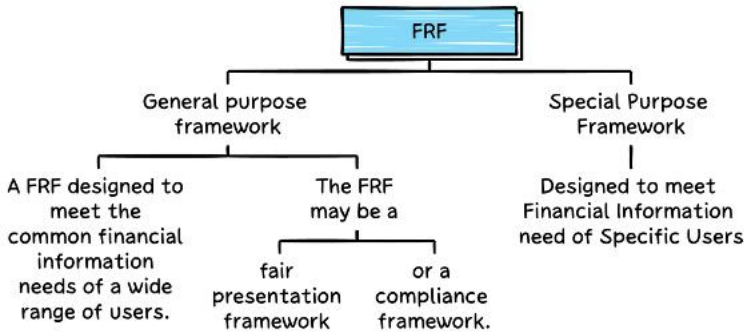
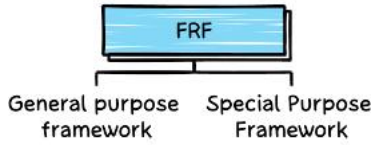
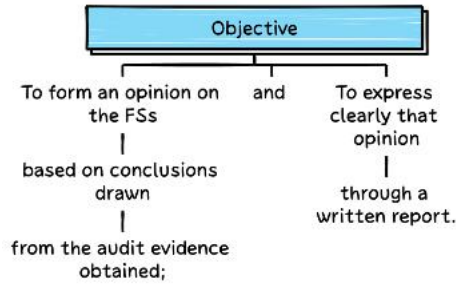
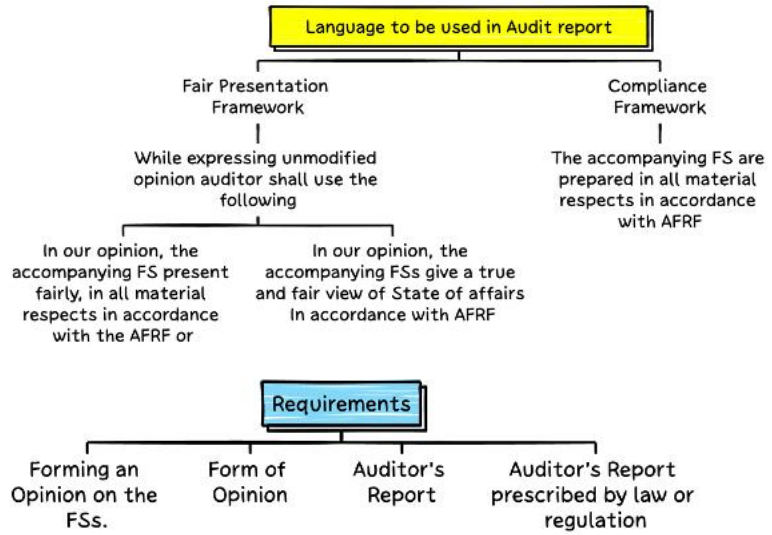


Chapter 8 - Audit Report

SA700 - Forming An Opinion And Reporting On Financial Statements

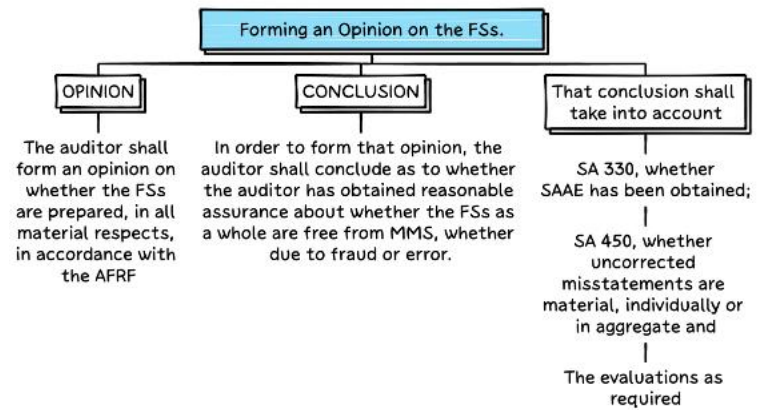


Framework prepared according to taxation regulations ignoring normal accounting norms. Many times tax regulations contradict accounting norms. If FSs are prepared according to guidance provided by taxation authorities then it is a special purpose FS based on special purpose framework



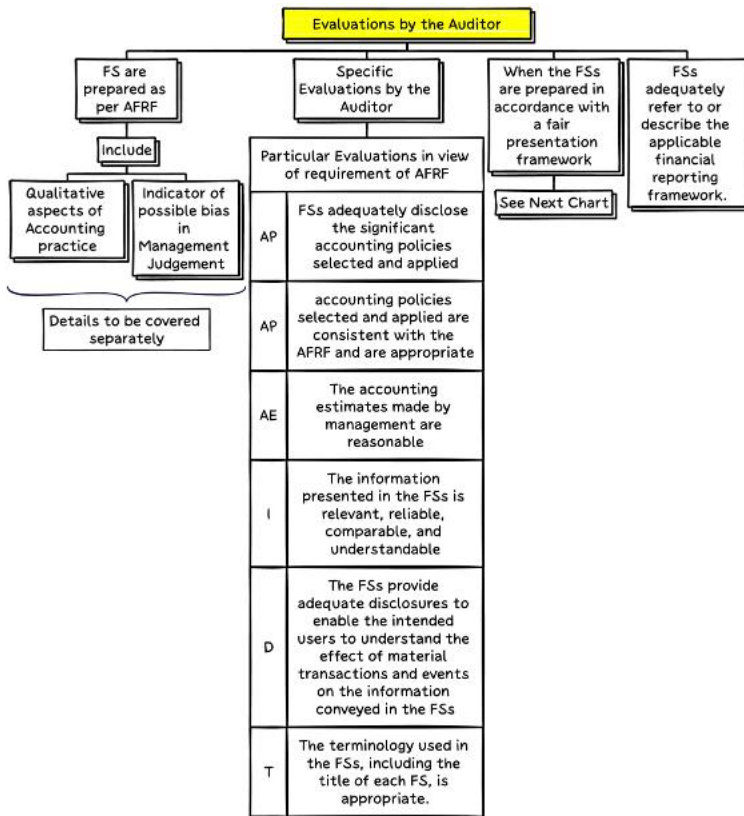
Consistency and Flexibility in auditor reporting globally

- SA 700 **promotes consistency** in auditor reporting while **allowing flexibility** for different jurisdictions
- Consistent **reporting** based on SAs **enhances credibility** in global markets by making audits conducted under global standards easily identifiable.
- Some **jurisdictions require additional information** in audit reports due to local regulations or practices.
- Standardized** format helps **identify deviations** like qualified opinions or emphasis of matter paragraphs



Extra reading
SA 800 - Special Considerations - Audits of FSs Prepared in Accordance with Special Purpose Frameworks.

Example - Framework that does not comply with fundamental assumptions of general purpose framework. For example FSs prepared using a cash basis. Such FSs may be helpful for certain stakeholders that are interested in knowing the liquidity position of the entity like creditors.



"The auditor shall evaluate whether the financial statements are prepared, in all material respects, 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 judgements." Discuss stating clearly qualitative aspects of the entity's accounting practices (ICAI Study Material - Test Your Knowledge)

An auditor is required to make specific evaluations while forming an opinion in an audit report." State them.
 (ICAI Study Material - Test Your Knowledge) (SA, Nov 2018, 5 marks)
 (MTP2, May 2021, 4 marks) (MTP1, Nov 2021, 3 marks) (MTP1, May 2023, 4 marks)

Qualitative Aspects of the Entity's Accounting Practices

- Management uses **judgment** in financial statements.
- **SA 260** guides auditors to consider qualitative aspects of accounting practices.
- Auditors **may detect possible management bias**
- Lack of neutrality with uncorrected misstatements may cause material misstatement
- Indicators of lack of neutrality include
 - Selective correction of misstatements identified during audit **Example: Correcting errors that increase earnings** but ignoring those that decrease them.
 - Possible management bias in accounting estimates **SA 540** deals with bias in accounting estimates.
- **Indicators** of bias are **not misstatements** themselves, but **may affect** the auditor's view of overall material misstatement.

Logic of topic - we are required to check whether financial statements are prepared as per AFRF, for that, we will definitely consider the amounts, but we are also required to consider qualitative aspects of accounting as well as indicators of possible bias in judgement of management.

