

Forming an Opinion & Reporting

Lesson 12

KEY CONCEPTS

- Audit Evidence ■ Reporting with Qualification ■ Unqualified Opinion ■ Modified Opinion ■ Qualified Opinion
- Adverse Opinion ■ Disclaimer of Opinion ■ Emphasis of Matter

Learning Objectives

To understand:

- The need to form an opinion on the affairs of the company to state whether they are in accordance with the applicable laws or not in any audit.
- The principles and procedure relating to preparing audit report.
- How an auditor should form his opinion on considering all material respects, in accordance with the applicable reporting framework and the requirement of the audit.
- Various forms of Audit opinion and its relevance under the audit report.

Lesson Outline

- Introduction
- Forms of Opinion
- Materiality
- Process of forming opinion
- Third Party Opinion
- Management Representation
- Sharing of Draft Report
- Signing of Audit Report
- Reporting with Qualification
- Lesson Round-Up
- Glossary
- Test Yourself
- List of Further Readings
- Other References ((Including Websites / Video Links)

REGULATORY FRAMEWORK

- CSAS 3: Auditing Standard on forming of opinion.

INTRODUCTION TO PROCESS OF FORMING AN OPINION

The audit is performed by an Auditor who is independent to the company which is being audited and the critical part in auditing is the forming of opinion i.e. views of the auditors, which shall be based on the fact, records and verifications made by him during the performance of the audit. This requires auditors to have knowledge of the basic principles of forming an audit opinion and should have expertise in application of knowledge while forming opinion. (*In Re Bhikubhai Vithlabhai Patel and Others Vs. State of Gujarat and others, Gujarat High Court Mis Civil Appeal for review no, 3165 of 2006*, it was held that the existence of relevant material is a precondition to the formation of opinion. The formation of opinion, though subjective, must be based on material disclosing that a necessity had arisen.)

Upon the performance of the audit and conclusion thereof, the auditor is required to submit a report stating that the affairs of the company are carried out in the fair manner and are free from material misstatement.

However, the content of the opinion should clearly indicate whether it is unmodified or modified and if modified, whether it is modified as adverse or disclaimer of opinion. The auditor should form his opinion on considering all material aspects, in accordance with the applicable reporting framework and the requirement of the audit and after obtaining reasonable assurance about whether the affairs of the company relating to the scope of audit as a whole are free from material misstatement or not.

In particular, the auditor shall evaluate whether, in view of the requirements of the applicable reporting framework:

- (a) The Company has adequately disclosed all relevant information about its affairs;
- (b) The Company has followed all procedures as required under the applicable laws;
- (c) The Company is in compliance with the applicable laws;
- (d) The Company is consistent with the applicable reporting framework;
- (e) The information presented by the company is relevant, reliable, comparable, and understandable; and
- (f) The company has provided adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information.

Auditing Standard on Forming of opinion (CSAS-3)

The Auditing Standard on Forming of opinion (CSAS-3), formulated by Auditing Standards Board (ASB) of the Institute of Company Secretaries of India (ICSI) and issued by the Council of the ICSI, is effective from 1st July, 2019 on a recommendatory basis and shall be mandatory with effect from 1st April, 2021.

This Auditing Standard on Forming of opinion is applicable to the Auditor undertaking Audit under any statute. The Standard deals with basis and manner for forming Auditor's opinion on subject matter of the audit. This standard aims to promote consistency in opinion forming and reporting thereof to enable users of the report to identify the audit findings.

Objective

The objective of the Standard is to enable the Auditor to lay down the basis and manner for evaluation of the conclusions drawn from the Audit Evidence obtained and express the opinion through written report.

The objective is to standardise the process of analysis and evaluation of audit conclusions made during the audit process to form an opinion and express it in writing. The Standard lays down the principles that need to be applied while forming an opinion and expression thereof.

The evaluation under CSAS-2 refers to the evaluation of Audit Evidence to reach a conclusion, whereas this Standard deals with evaluation of conclusion(s) reached during audit process. This Standard also deals with the manner in which the opinion formed by the Auditor will be expressed in writing and circumstances and manner to disclaim the opinion and the reporting format.

FORMS OF AN OPINION

Unqualified / Unmodified Opinion

The auditor shall report an unqualified opinion if the affairs of the company are found to be free from material misstatements. In addition, an unqualified opinion is given over the existence and effectiveness internal controls of an entity if the management has claimed responsibility for its establishment and maintenance, and the auditor has performed fieldwork to test its effectiveness.

An unqualified opinion contains no reservations concerning the company. This is also known as a “clean” opinion, meaning that the affairs of the company are presented fairly.

The Auditor should express an unmodified opinion when based on Audit Evidence, the Auditor concludes that:

- (a) there is due compliance with the applicable law in terms of timelines and process; and
- (b) the records as relevant for the audit verified by him as a whole are free from misstatement and maintained in accordance with applicable laws.

“Records” include:

- (i) Memorandum and Articles of Association, byelaws or any other constitutional documents;
- (ii) Minutes, returns, forms, index and Registers;
- (iii) Books and papers include books of accounts, deeds, vouchers;
- (iv) Agreements, Memorandum of Understanding;
- (v) Other documents maintained by the Auditee either in physical or electronic form; and
- (vi) Correspondence.

Generally the Records means the Records for the audit period, however if an opinion forming warrants the review of prior period Records, the same may also be considered as Records. Further, the Records means the Records of an Auditee, however if an opinion forming warrants the Records of regulators, authorities and third parties may also be considered as Records

- (c) the auditor concludes that the information on the affairs of the company in all material respects, are in accordance with the applicable reporting framework.

Para 4.1 of the of CSAS -3 Provides that -

The Auditor shall express an unmodified opinion when based on Audit Evidence, the Auditor concludes that:

- (a) there is due compliance with the applicable laws in terms of timelines and process; and
- (b) the records as relevant for the audit verified by him as a whole are free from misstatement and maintained in accordance with applicable laws.

Misstatement

“Misstatement” means any information or statement which is false, incorrect, incomplete, misleading or misrepresents, omits or suppresses a material fact.

Misstatement means when any written statement is found to be false, incorrect, incomplete, misleading, or which misrepresents or omits or suppresses any material fact from the given meaning of the stated sentence or paragraph or otherwise from the whole document, which in turn fails to portray a clear, true and fair meaning of the titled subject and ultimately purpose of the given statement is not attained or understood in its correct sense.

Causes of misstatement may include :

- (a) an inaccuracy in gathering or processing data or information;
- (b) an omission of a disclosure;
- (c) an incorrect or clear misinterpretation of the facts; or
- (d) Management’s judgments that the Auditor considers unreasonable.

For Example:

1. XYZ an Auditee company has stated in its Annual Report that company has complied with all applicable regulations of SEBI during the Financial Years whereas the material non-compliances were not reported which impacts the Goodwill of the company, which can mislead the investors.
2. Company undertook a material related party transactions but it is not disclosed in the company’s Annual Report.

An unmodified opinion is an audit report that has been issued with no reservations or qualifications regarding the state of compliances of all the applicable laws, rules and regulations of the Auditee’s business activities, documents, or statements etc. In this opinion, the Auditor follows a standard opinion format to state that all the statements, documents or other business procedures are a fair representation of the condition of the Auditee’s business, and in accordance with the applicable Laws.

In order to form unmodified opinion, Auditor shall conclude as to whether he has obtained reasonable assurance about whether the documents, books or statements as a whole are free from material misstatement, whether due to fraud or error.

An unmodified opinion is formed when based on all the Audit Evidences the Auditor states that there is due compliance of all the applicable laws, or any other law for the time being in force, or any rule or regulation in terms of timelines and process.

Compliance in terms of timelines: Compliance in terms of timelines implies that when the adherence of the applicable laws, act, rules or regulations are made within the specified time limits as provided in the law for the particular task or completing any business procedure etc.

Example: As per law the due date of filing the Annual Returns, i.e., Form MGT-7 of the company with Registrar of Companies is given as sixty days from the date of Annual General Meeting of the company and company has also filed the said return within the prescribed limit of 60 days, that means company has adhered to the applicable laws properly and within the given timelines.

Compliance in terms of process: Compliance in terms of process means that, when the business activities, say documentation, or any other transaction has been made, complying with the applicable laws and as per the procedure or process given for performing that activity/procedure or transaction etc. The process of doing or performing the task as per the given procedure in the applicable laws is known to be compliances made in “in terms of process”.

Example: If a company is required to shift its registered office from one place to another within same state and RoC, the a whole set of procedures given in Companies Act, 2013 is required to be followed e.g. conducting a Board Meeting for approval of shifting of Registered office, intimation to Registrar of Companies in Form INC-22 along with various documents as attachment within 15 days of passing the Board Resolution.

Modified Opinion

The Auditor should express modified opinion when the Auditor concludes that:

- (a) based on the Audit Evidence obtained, there is non-compliance with the applicable laws in terms of timelines or process; or

CASE STUDY		
<p>ABC Ltd. is a listed company on BSE India. The company has appointed M/s YY & Associates as secretarial auditor for the FY 2021-2022. M/s YY & Associates had issued audit report in Form MR-3. The audit report stated observations as below:</p> <p>During the period under review the Company has complied with the provisions of the Act, Rules, Regulations, Guidelines, Standards, etc. mentioned above except to the extent as mentioned below:</p>		
S.No	Relevant Provision for Compliance Requirement	Observations
1	<i>Regulation 17 read with Regulation 25 of Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulation, 2015 and Section 149(3) of the Companies Act, 2013 read with The Companies (Appointment and Qualification of directors) Rules, 2014</i>	<i>The Composition of the Board of Directors was not in compliance with the regulations from 27.12.2021 till 15.03.2022. The Company has rectified the Non- Compliance w.e.f. 16.03.2022.</i>
2	<i>Regulation 18 of Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulation, 2015</i>	<i>The Composition of the Audit Committee was not in pursuance to the Regulations and the same has been rectified on 15.10.2021.</i>
3	<i>Regulation 21 of Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulation, 2015</i>	<i>The Risk Management Committee of the company comprised of 50% of the members who were board of directors of the company which was not in pursuance to the Regulations however the same had been rectified on 01.10.2021.</i>
4	<i>Section 203 of The Companies Act, 2013 read with The Companies (Appointment and Remuneration) Rules, 2014</i>	<i>The Company had Group Chief Financial Officer, however did not have Chief Financial Officer (CFO) of the company till 31.05.2021.</i> <i>The Appointment of Chief Financial Officer (CFO) was made w.e.f. 01.06.2021.</i>

- (b) based on the Audit Evidence obtained, the records as a whole are not free from misstatement; or are not maintained in accordance with applicable laws; or
- (c) he is unable to obtain sufficient and appropriate Audit Evidence to conclude that there is due compliance with the applicable laws in terms of timelines and process; or
- (d) he is unable to obtain sufficient and appropriate Audit Evidence to conclude that the records as a whole are free from misstatement; or are maintained in accordance with applicable laws.

CASE STUDY

Adjudication Order in respect of *CHD Developers Ltd. and 3 others in the matter of CHD Developers Ltd. (Adjudication Order: Order/MC/VS/2021-22/13557-13560)*, in this matter SEBI initiated adjudication proceedings against CHD Developers Ltd for violations of the SEBI LODR Regulations in respect of disclosure of material false information under the LODR Regulations in relation to the opinion of its Auditor.

Based on audit procedures performed and management explanations provided, the Auditors had submitted a qualified opinion in their Report to the financial statements of the company and did not receive any explanation or evidence from the Company with respect to progress on the qualification made. Instead, the report issued on June 29, 2019 had declared that the Auditors had given an unmodified opinion.

It was observed that as the company failed to disclose its audited financial results as well as the statement of impact of audit qualifications (for audit report with modified opinion) within the stipulated period of 60 days from the end of the financial year, it has violated the provisions of SEBI LODR Regulations. Taking into account the facts and circumstances of this matter, the AO imposed penalty to the company and its officers.

If the information prepared in accordance with the requirements of a fair presentation framework is not sufficient and relevant enough so as to allow achieving of a fair presentation, the auditor should discuss the matter with management and, depending on the requirements of the applicable reporting framework and how the matter is resolved, should determine whether it is necessary to modify the opinion in the auditor's report. In case the auditor expresses a modified opinion or disclaims an opinion, the text of the opinion shall be either in italics or bold letters.

The Board of Directors, in their report made in terms of sub-section (3) of section 134, shall explain in full any qualification or observation or other remarks made by the company secretary in practice in his report.

CASE STUDY

ABC Ltd. is a listed company on BSE India. The company has appointed M/s YY & Associates as secretarial auditor for the FY 2021-2022. M/s YY & Associates had issued audit report in Form MR-3. The audit report stated observations. Consequently, directors also furnished explanations to the remarks as below:

Secretarial auditors' observation(s) in secretarial audit report and directors' explanation thereto –

- i. In respect of observation that the composition of the board of directors was not in compliance with Regulation 17 and 25 of the Listing Regulations and Section 149(3) of the Companies Act, 2013 and that the composition of Audit Committee was not in compliance with Regulation 18 of the Listing Regulations.

It is clarified that considering the stressed situation of the Company, it was difficult to find suitable persons as Independent Directors and with the appointment of new independent directors (including one woman independent director), the Company is compliant with Regulation 17 and 25 of the Listing Regulations and Section 149(3) of the Companies Act, 2013 with effect from March 16, 2022. Further, due to resignation of two independent directors who were also Audit Committee members, the composition of Audit Committee was not in compliance of Regulation 18 of the Listing Regulations for a period from September 27, 2021 till October 14, 2021. With reconstitution of Audit Committee w.e.f. October 15, 2021, this non-compliance has been rectified.

- ii. In respect of observation that the Risk Management Committee of the Company comprised of 50% of the members who were directors of the Company which was not in compliance of Regulation 21 of the Listing Regulations.

It is clarified that 50% of the members were directors only, however as a stricter compliance, the composition of the Risk Management Committee further stands rectified w.e.f. October 1, 2021.

- iii. In respect of observation pertaining to non-appointment of Chief Financial Officer (CFO) in compliance with Section 203(4) of the Companies Act, 2013.

It is clarified that the Company all along had a Group Chief Financial Officer. The Company appointed CFO w.e.f. June 1, 2021 and accordingly the same stands rectified.

The modification on Opinion can be in any one of the following three categories depending upon the nature and severity/ extremity of the matter under consideration:

The Qualified Opinion

The Adverse Opinion

The Disclaimer of
Opinion

Defining the level of severity is always a subject matter which varies according to the case to case basis and require a judgemental skill in the forming of opinion. The above three categories of the modified opinion can be further elaborated as under:

Qualified Opinion

An Opinion can be considered as a qualified opinion when the auditor specifically provides the additional paragraph or points out the specific instances where the company has failed to do compliance as required under the law, or provides reasons for the not issuing the unqualified report on the affairs of the company.

Adverse Opinion

An Opinion can be considered as an adverse opinion, which is considered as the out of track opinion, wherein the auditor concluded that the affairs of the company are not in line with its objectives, government rules, and the company has neglected and grossly misstated its records.

An adverse opinion may be an indicator of fraud, and public entities that receive an adverse opinion are forced to take corrective measures.

Disclaimer of Opinion

Instances, where the auditor is unable to access the records of the company on any grounds such as geographical reasons, regulatory, natural calamity or could not complete the audit due to absence of requisite records or insufficient co-operation from management, the auditor issues a disclaimer of opinion. Such opinion is an indication that no opinion was formed by the auditors and the Auditor was not able to conclude that the affairs of the company are conducted in true and fair manner, such disclaimer of opinion is not considered as an opinion itself.

Whenever the Auditor expresses a modified opinion or disclaims an opinion, the text of the opinion shall be either in italics or bold letters.

When the Auditor expresses a modified opinion, the Auditor shall state in opinion paragraph that, in Auditor's opinion, because of the significance of the matter(s) described in the basis for modified opinion paragraph and then continue with the opinion and describe reasons in the basis for modified opinion paragraph.

When the Auditor disclaims an opinion, he shall state in the opinion paragraph that the opinion is disclaimed because of the matter(s) described in the basis for disclaimer of opinion paragraph and then continue with the opinion and describe reasons in the basis for disclaimer of opinion paragraph.

Emphasis of Matter

Emphasis of matter (EOM) is included in the audit report to seek the attention of the reader, to make the reader aware about the specific instances which are not in the general course of business. Such matters can have the

positive as well as negative impact on the affairs of the company in future. The purpose of an EOM paragraph is to draw the users' attention to a matter already disclosed but the auditor believes that, it is fundamental to their understanding and should be a part of the report.

The following are examples of the matters which should be considered as emphasis of matter:

Legal Uncertainty	<ul style="list-style-type: none"> ● an uncertainty relating to the future outcome of exceptional litigation or regulatory action
Litigation certainty	<ul style="list-style-type: none"> ● when there is uncertainty about exceptional future events, pending litigations
New Technology	<ul style="list-style-type: none"> ● adoption of new technology
Changes in regulatory environment	<ul style="list-style-type: none"> ● recent changes in the regulatory environment
Major Catastrophe	<ul style="list-style-type: none"> ● when a major catastrophe has had a major effect on the financial position.
Early Application of new AS	<ul style="list-style-type: none"> ● early application (where permitted) of a new accounting standard (for example, a new International Financial Reporting Standard) that has a pervasive effect on the financial statements in advance of its effective date; and

Ideally, such matters should be the part of the Directors Report or the Management Discussion and Analysis report prepared by the company. If the same is not disclosed by the company in the Directors report or in Management Discussion and Analysis Report, the auditor may opt to place the same in the Auditor's Report.

MATERIALITY

Materiality is a concept or convention within auditing and accounting relating to the importance/significance of an amount, transaction, or discrepancy in the records of the company. The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in conformity with an identified financial reporting framework such as Generally Accepted Accounting Principles (GAAP).

The assessment of what is material is a matter of professional judgement. Materiality can be defined as the magnitude of an omission or misstatement of information that, in the light of surrounding circumstances, makes it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the said omission or misstatement.

The auditor has to ensure that material items are properly and distinctly disclosed by the company. It is very important for the

Example: The risk that a particular account balance or class of transactions could be misstated by an extremely large amount might be very low but the risk that it could be misstated by an extremely small amount might be very high.

auditor to constantly judge whether a particular item is material or not. There is an inverse relationship between materiality and the degree of audit risk. The higher the materiality level, the lower the audit risk and vice versa.

Materiality is the threshold above which missing or incorrect information is considered to have an impact on the decision making of the Auditor. Information is considered as material if its omission or misstatement could influence the opinion of the Auditor. Materiality can also be construed in terms of net impact.

The Auditor shall consider materiality while forming his opinion and adhere to:

1. The principle of **completeness** that requires the Auditor to consider all relevant Audit Evidence before issuing a report;
2. The principle of **objectivity** that requires the Auditor to apply professional judgement and professional skepticism minor derthoen sure that all reports are factually correctand that findings or conclusions are presented in a relevant and appropriate manner;
3. The principle of **timeliness** that implies preparing the report in due time; and
4. The principle of a **contradictory process** that implies checking the accuracy of facts and incorporating responses from concerned persons.

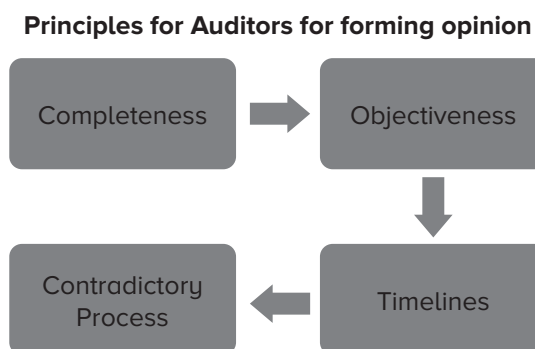
As the concept of Materiality is applied by the Auditor both in planning and performing the audit, and forming the opinion. Materiality consists of both quantitative and qualitative factors.

Determining Materiality is a matter of professional judgement and depends on the Auditor's interpretation of the user's needs. A matter can be judged material if knowledge of it is likely to influence the decisions of the intended users. Materiality is a relative concept. In practice, Auditors evaluate materiality on a standalone basis. What is material for one Auditee may not reach the Materiality threshold for another. Materiality is a matter of professional judgement of the Auditor and its teams' experience.

As mentioned above, materiality is important while conducting the audit process and also while forming the audit opinion based upon the evaluation of conclusions drawn on the basis of the audit process. The parameters for application of Materiality could be different in forming of audit opinion when compared to application of Materiality while evaluating the Audit Evidences in accordance with CSAS-2. While CSAS-2 deals with collection and evaluation of Audit Evidence to draw conclusions, CSAS-3 deals with evaluation of such conclusions to form the opinion.

PROCESS FOR FORMING OF OPINION

Forming of Opinion based on the audit observations is an important part of any audit, as through this process the outcome of audit are presented in the form of Audit Report to the intended users. Audit *inter alia* involves reporting compliance of or deviations from the applicable laws.



The Auditor shall consider Materiality while forming his opinion and adhere to:

- (a) The principle of **completeness** that requires the Auditor to consider all relevant Audit Evidence before issuing a report;

It requires that the Auditor should gather sufficient and appropriate Audit Evidences to provide the basis for the conclusion or opinion. An Auditor may collect evidences regarding accuracy, completeness and validity of data. Through compliance procedure, Auditor may collect evidences regarding internal control system as used in the Auditee's organisation.

Auditor should not be selective in using the available evidence before forming opinion. Auditor cannot use the evidence that supports his surmises and discard other evidence. Auditor should use all the available evidence available to him, and only discard the contradictory information, if any, after applying principle of contradiction process.

- (b) The principle of **objectivity** that requires the Auditor to apply professional judgement and skepticism in order to ensure that all reports are factually correct and that findings or conclusions are presented in a relevant and appropriate manner;

The Auditor must remain objective throughout the whole process, such that his integrity must not allow any malpractice in the audit process. Objectivity is essential for any professional person exercising professional judgement. Objectivity is the state of mind which has regard to all considerations relevant to the task in hand but no other. It is sometimes described as 'Independence of Mind'.

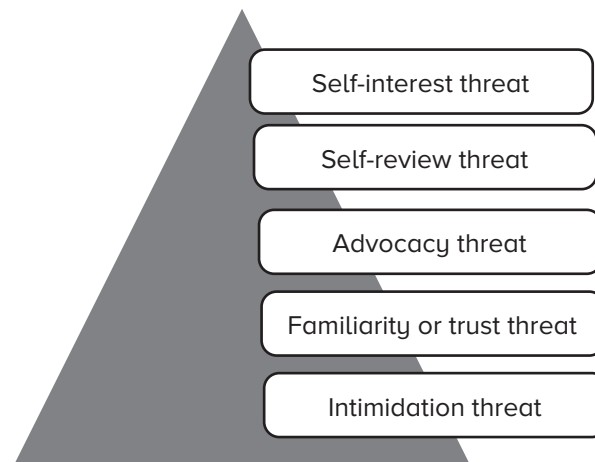
The need for objectivity is particularly evident in the case of the Auditor for carrying out an audit or some other reporting roles where their professional opinions can affect rights between parties and the decisions they take.

Professional skepticism is considered as corner stone of good auditing. Professional skepticism requires an Auditor to have an enquiring mind. Whatever documents and information are produced before the Auditor by Management/ Auditee should not be relied on the face of it. An Auditor should see to it that documents and information are reasonable, appropriate, inconsonance with attending circumstances and knowledge of the Auditor from other sources as well. Auditor must obtain sufficient evidence from Auditee to support what Auditee says.

Threats to objectivity

Threats to objectivity can arise in a number of ways, some general in nature and some related to the specific circumstances of an assignment or role. Auditor should identify the threats and consider them in the light of the environment in which he is working; he should also take into account the safeguards which assist them to withstand threats and risks to their objectivity.

The easiest way of avoiding such threats would be for Auditor to decline to act in any circumstances where the slightest threat to objectivity might exist. Threats to objectivity might include the following:



Self-interest threat - A threat to the Auditor's objectivity stemming from a financial or other self-interest conflict. This could arise, for example, from a direct or indirect interest in Auditee or from a fear of losing an audit work.

Illustration:

The M/s ABC & Associates engaged its audit team for conducting audit of XYZ Ltd. However, the audit team has not received its audit fees from XYZ Ltd for its audit. In this case, the audit team may consider to issue a favorable audit report so that the company is able to secure a loan to settle the fees outstanding for their audit.

Self-review threat - The apparent difficulty of maintaining objectivity and conducting what is effectively a self-review, if any product or judgement of a previous audit assignment or a non-audit assignment needs to be challenged or re-evaluated in reaching audit conclusions.

Advocacy threat - There is an apparent threat to the Auditor's objectivity, if he becomes an advocate for (or against) the Auditee's position in any adversarial proceedings or situations. Whenever the Auditor takes a strongly proactive stance on the Auditee's behalf, this may appear to be incompatible with the special objectivity that audit requires.

Illustration:

The auditor is assisting in selling XYZ Pvt Ltd and he is also serving as the auditor for the company. In this scenario, the auditor may issue a favorable report to increase the sale price of XYZ Pvt Ltd.

Familiarity or trust threat - A threat that the Auditor may become over-influenced by the personality and qualities of the Directors and Management, and consequently too sympathetic to their interest.

Alternatively, the Auditor may become too trusting of Management representations so as to be inadequately rigorous in his testing of them - because he knows the Auditee too well or the issue too well or for some similar reason.

Illustration:

XYZ Pvt Ltd has been audited by M/s ABC & Associates for over 8 years and the audit partner of the firm regularly plays badminton with the CEO and CFO of XYZ Pvt Ltd. Then in this case, the audit partner of M/s ABC & Associates may have become too familiar with the client and, thus, lack objectivity in their work.

Intimidation threat - The possibility that the Auditor may become intimidated by threat, by dominating personality, or by other pressures, actual or feared, by a director or manager or by some other party.

Illustration:

XYZ Pvt Ltd is unhappy with the conclusions and qualifications made by M/s ABC & Associates in the audit report and sensitized to switch auditors next year. XYZ Pvt Ltd is the biggest client of the M/s ABC & Associates.

In this case, the auditor's independence may be compromised, as XYZ Pvt Ltd is the biggest client of M/s ABC & Associates and they do not want to lose such a client. Therefore, the auditor may issue a report that calms XYZ Pvt Ltd.

Each of the above threats may arise either in relation to the Auditor's own person or in relation to a connected person such as a member of his family or a partner or a person who is close to him for some other reason, such as past or present association or obligation or indebtedness.

Auditors should always consider the use of safeguards and procedures which may negate or reduce threats.

An exhaustive list of countervailing factors is not possible, but Auditors should strive to develop the following characteristics in their audit firms, wherever possible to provide safeguards against these threats:

- Auditors should behave with integrity in all their professional and business relationships and to strive for objectivity in all professional and business judgements. These factors rank highly in the qualities that Auditors have to demonstrate the same. They should therefore be well used to setting personal views and inclinations aside.
 - Within every audit firm there should be strong peer pressure towards integrity. Reliance on one another's integrity should be the essential force which permits partners to entrust their public reputation and personal liability to each other.
 - Audit Firms of all sizes should establish strong internal procedures and controls over the work of individual Auditors, so that difficult and sensitive judgements are reinforced by the collective views of other Auditors, thereby also reducing the possibility of litigation.
- (c) The principle of **timeliness** that implies preparing the report in due time;
Auditor must adhere to timeline agreed at the time of engagement for issuing the report and milestones to be achieved, if any. Deviations, from agreed timeline must be recorded with reason for such deviation.
- (d) The principle of a **contradictory process** that implies checking the accuracy of facts and incorporating responses from concerned persons.

When two contradictory facts emerge on same subject matter of audit, Auditor must strive to find additional evidence/material which supports or negates one of the facts. This process of finding additional evidence/material must continue till one of the facts is eliminated. In case Auditor is unable to find further evidence/material and contradiction continues to persist, Auditor should bring out that fact clearly in his report and if circumstances warrants, disclaim opinion on that particular subject matter.

The Principle of contradictory process also implies checking the accuracy of facts with the Auditee and incorporating responses from responsible officials as appropriate. The Auditor should consider relevant evidential matter regardless of whether it appears to corroborate or to contradict the assertions. Thus, during the conduct of an audit, the Auditor should consider all relevant evidential matter even though it might contradict or be inconsistent with other conclusions.

Audit documentation must contain information or data relating to significant findings or issues that are inconsistent with the Auditor's final conclusions on the relevant matter.

After completing the audit procedures the Auditor reviews the Audit Evidence in order to draw a conclusion, issue an opinion or describe the findings.

The Auditor should evaluate whether the evidence obtained is sufficient and appropriate so as to reduce audit risk to an acceptably low level. The evaluation includes considerations of evidence that both supports and seems to contradict the audit report, conclusion or opinion on compliance/non-compliance. The evaluation further includes considerations of Materiality. After evaluating the sufficiency and appropriateness of evidence to determine the assurance level of the audit, the Auditor should consider which conclusion is appropriate in light of the evidence obtained. After evaluation, Auditors need to weigh the extent and credibility of conflicting evidence in order to reach a conclusion or collect more evidence to resolve the conflict in such situations, Auditors need to weigh the extent and credibility of conflicting evidence in order to reach a conclusion or collect more evidence to resolve the conflict.

Audit conclusion should clearly bring out the nature and extent of non-compliance, cause of such non-compliance, its Materiality and also the effect of non-compliance, if possible. The audit conclusions in case of regularity issues should also indicate whether non-compliance is a solitary one-off case, or wide spread systemic issue in the Auditee.

1. Judgement, Clarification and Conflicting Interpretation

While forming an Audit opinion the Auditor may consider or refer the decided case laws or judgements, clarifications issued, opinions formed in similar type of audits while framing the final audit opinion.

Judgements

For example, while interpreting the issue of loans given by the Auditee company in terms of Section 185, the Auditor may refer to the decided case laws in this respect, e.g. in *Dr. Freddie Ardeshir Mehta v. Union of India*, the terms “indirectly” and “loans”, has been explained as below :

- The word “**indirectly**” means providing loan through agencies or any other medium but does not include converting anything which does not qualify to be loan or loan represented by book debt or security or guarantee into loan, any loan represented by book debt or guarantee or security.
- The word “**Loan**” was defined by the court as a thing lent; something the use of which is allowed for a time, on the understanding that it shall be returned or an equivalent given; esp., a sum of money lent on these conditions and usually with interest. The essential requirement of a loan is the advance of money (or of some article) upon the understanding that it shall be returned, and it may or may not carry interest.
- The phrase “**any loan represented by book debt**” is inserted in order to plug the loophole used in the case of “*Dr. Freddie Ardeshir Mehta v. Union of India*” where court took the view that book debt can’t be treated as loan and since the earlier Section 295 of Companies Act, 1956 does not explicitly include the phrase “any loan represented by book debt” hence any kind of credit facility extended by company to directors will not cover under the “Loan to director”.

Therefore, while auditing, the Auditor may refer to the interpreted words given in court judgements so as to interpret the meaning of the legal terms correctly and in their true sense and can frame the opinion accordingly and accurately.

Clarifications in respect of forming the audit opinion implies that in case the true or clear sense of law cannot be interpreted by the Auditor or if it was so interpreted, then contradictory interpretations amongst various Auditors or professionals seem to exist; in such a case Auditor may refer to the clarifications issued by various authorities e.g. Ministry of Corporate Affairs, Institute of Company Secretaries of India, CBDT, or any other Govt. body etc., to frame a reliable and accurate opinion.

Opinions formed by other Auditors, in similar types of Audits may also be referred by the Auditor to form a judgement and frame its opinion. Similar type of Audit may also depend on nature of business, transactions occurred and operation of scale of Auditee, etc.

Conflicting Interpretations may be sorted out by again referring to the decided judgements, clarifications issued by the Govt. Authorities, Regulators, etc.

2. Role of Precedence and Practices

Precedence and Practice in context of Auditing implies that Auditor shall evaluate on the basis of general or ongoing practices or procedures that whether the Records maintained, statements prepared in all material respects, in accordance with the requirements of the applicable laws, rules and regulations. This evaluation shall include consideration of the qualitative aspects of the Auditee’s compliance practices, including indicators of possible bias in Management’s judgements.

The Practices and precedence used by Auditor for forming the Audit opinion may be as per the historical perspective i.e., methods used hitherto or generally used methods or practices or procedures be implemented for framing the opinion. Like, one of the method involves selecting a sample size of total work and activities of a firm for conducting the audit process, which simultaneously depends upon the firm’s size, operation of work and no. of branches, etc., or another practice includes having an unbiased approach while conducting the audit process in order to frame the honest and unbiased opinion.

LIMITATION

If, after accepting the Audit Engagement, the Appointing Authority imposes a limitation on the scope of the Audit which, in the opinion of the Auditor, is likely to result in the need to express a modified opinion or to disclaim an opinion, the Auditor shall request the Appointing Authority to remove the limitation.

If the Appointing Authority refuses or fails to remove the limitation, the Auditor shall communicate the matter to the Management and determine whether it is possible to perform alternative procedure to obtain sufficient and appropriate Audit Evidence.

If the Auditor is unable to obtain sufficient and appropriate Audit Evidence, the Auditor shall determine the implications as follows:

- (a) If the Auditor concludes that the possible effects of unavailable Audit Evidence could be non-material, the Auditor shall modify the opinion; or
- (b) If the Auditor concludes that the possible effects of unavailable Audit Evidence could be material, the Auditor shall express disclaimer of opinion.

Limitation on the scope of audit means when the Auditor appointed for performing the Audit will not be able to obtain appropriate or complete Audit Evidences due to the restrictions or limitations imposed on the process of Audit which ultimately affects the Auditor's opinion.

The Auditor's inability to obtain sufficient and appropriate Audit Evidence (also referred to as a limitation on the scope of the audit) may arise from:

- (a) Circumstances beyond the control of the Auditee;
- (b) Circumstances relating to the nature or timing of the Auditor's work;
- (c) Limitations imposed by Management.

An inability to perform a specific procedure does not constitute a scope limitation if the Auditor can obtain sufficient appropriate Audit Evidence by performing alternative procedures. Limitations imposed by Management may have other implications for the Audit, e.g. for the Auditor's assessment of fraud risks.

If after obtaining the Audit engagement, the Appointing Authority imposes a limitation on the scope of Audit, which is likely to affect the Auditor's opinion, the Auditor shall request the Authority to remove the limitation. If Management refuses the Auditor's request to remove a limitation that Management has imposed on the scope of the audit, the Auditor should communicate the matter with those charged with governance. When a limitation on the scope of the audit imposed by Management is not removed, the Auditor should determine whether it is possible to perform alternative procedures to obtain sufficient appropriate Audit Evidence on which to base an unmodified opinion. If the Auditor is unable to obtain sufficient appropriate Audit Evidence, the Auditor should determine the implications as follows:

- if the possible effects of the scope limitation are material but not pervasive to the business procedures, documents, or underlying transactions, the Auditor should modify the opinion;
- if the possible effects of the scope limitation are both material and pervasive to the compliance of laws, rules and regulations or underlying transactions or other business procedures/activities so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the Auditor should disclaim an opinion.

THIRD PARTY REPORT OR OPINION

Sometimes due to circumstances like geographical constraints or want of expertise on any specific subject matter an Auditor may be required to rely on the Third Party reports. The Third Party reports may be arranged by the Auditee or Auditor directly. Third Party Report or Opinion is used as one of the external source of obtaining the Audit Evidences that would help in building the strong and quality Audit Opinion.

“Third Party” means any person who does not have a direct connection with the audit but whose inputs or opinion might influence the audit conclusion and includes an expert. Third party may include any person who has given inputs and opinion of the expert relevant for forming an opinion.

The Auditor shall adhere to the following while forming an opinion based on Third party reports or opinions:

- (a) The Auditor shall indicate the fact of use of Third party report or opinion and shall also record the circumstances necessitating the use of Third party report or opinion;
- (b) The Auditor shall indicate the fact if Third party report or opinion is provided by the Auditee;
- (c) The Auditor shall consider the important findings/observation of Third party;
- (d) The Auditor shall, if necessary and feasible, carry out a supplemental test to check veracity of the Third party report or opinion.

While using the work of Third Party, the Auditor should:

Consider the independence and objectivity of the Third Party;

- Take account of the Third Party’s professional competence for the specific audit;
- Consider the scope of the Third Party’s work;
- Determine the cost-effectiveness of using such work;
- Perform procedures too btain sufficient appropriate Audit Evidence that the work of the Third Party is adequate in the context of the specific audit (which may require access to the Third Party’s working papers); and
- Consider the significant findings of the other Auditor when analysing and interpreting the results of that work. Where these findings are significant to the opinion, Auditor should discuss these findings with the Third Party and consider whether it is necessary to carry out additional audit testing him.
- When using the work of Third Party, Auditor should carefully consider that, the Third Party may only recognise a duty of care to the addressee of the audit report.

MANAGEMENT REPRESENTATION LETTER

The auditor may obtain a management representation letter from the auditee company on matters which are not capable of direct verification by the Auditor. The letter may be signed by Managing Director/Company Secretary/Senior Management who would normally have authority to issue the same. Suggested format of the management representation letter is provided below. The format may be adopted with changes, depending on the circumstances and facts governing every audit. The Auditor can use this letter of representation as part of his audit evidence.

However, it is advised to exercise all possible care, reasonable skill & due diligence. Adequate enquiries should be made in respect of matters which are capable of direct verification. Mere getting certification or written representation from management may defeat the purpose of the audit.

Specimen Management Representation Letter for Secretarial Audit

Note: The following letter is a general guidance. Representation made by management may vary from one entity to another and from one year to another. It should be adopted in the light of individual requirements and circumstances.

M/s ABC & CO,

Date:

Company Secretaries,

ZYZ Road, India

Dear Sir,

This representation letter is provided in connection with your audit of the Secretarial Records maintained under The Companies Act, 2013 (the Act) and the rules made thereunder; (ii) The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made thereunder; (iii) The Depositories Act, 1996 and the Regulations and Bye-laws framed thereunder; (iv) Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings; The Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act') and other applicable laws including labour laws like Factories Act, Payment of Gratuity Act etc for the year ended on 31st March, 20 Environmental Laws and Competition Laws for the purpose required in it. We the undersigned acknowledge our responsibility for maintaining the Secretarial records referred above and confirm, to the best of our knowledge and belief, the following representations:

Company Law

1. The Company has maintained books of accounts as required under Section 128 of the companies Act, 2013.
2. The Company has complied with all the provisions of the Secretarial Standards.
3. The Company has complied with all the provisions of Companies Act, 2013 relating to Statutory Audit/ Cost Audit/Internal Audit.
4. No request for transfer or transmission of shares have been received by the company during the year other than as recorded.
5. Statutory Registers were kept open for public inspection during working hours on all working days.
6. Notice of Board meetings were duly sent to all the Directors.
7. Notes and notes to agenda were duly sent to all the Directors.
8. No resolutions were passed by way of circulation during the year under review other than those recorded in the minutes.
9. The views of all the dissenting Directors (if any) on important matters have been captured and recorded in the minute.
10. The venue and time of Board meeting was finalized with the consultation of all board members.
11. Draft minutes and final minutes were properly sent to all the Directors.
12. Company has not obtained any secured loan from any financial institution/banks other than those mentioned in the register of charges.
13. Notice of annual general meeting has been duly sent to all the members, Directors, Statutory Auditor and Secretarial Auditors.
14. No show cause notice has been received by the company under the Acts referred above or any other laws applicable on the company.
15. There are no pending litigation and claims other than those reported in the Financial Statements - balance sheet by way of contingent liability.
16. No event other than reported to you specifically has occurred during the year which has a major bearing on the company's affairs in pursuance of the laws, rules, regulations, guidelines, standards, etc. referred to above. We have provided to you all relevant information and have given access to all data and records.
17. The company has altered the memorandum/articles of Association and have recorded the alterations in all copies of the Memorandum/Articles of Association.

18. Wherever the Share Certificates were issued in the physical form, they were issued in accordance with the provisions of the Companies Act, 2013 and the rules thereunder.
19.

Securities Laws

1. All price sensitive Information was furnished to the stock exchanges from time to time.
2. All investors complains directly received by the company are recorded on the same date of receipt.
3. The Company has complied with provision of SEBI (LODR) Regulations, 2015.
4.

Specific Applicable Laws

Labour Laws

1. All the premises and establishments have been registered with the appropriate authorities.
2. The Company has not employed any child labour/bonded labour in any of its establishments.
3. The company is ensuring the compliance of PF/ESI and other social security measures with respect to the contract employees. One of the responsible officers of the company carries out the survey regarding the compliance of this.
4. The company has held its internal complaints committee meeting regularly under POSH.
5.

Environmental Laws

1. The Company is not discharging the contaminated water at the public drains/rivers. The company has efficient water treatment plants at its factory premises (if applicable).
2. The company has been disposing the hazardous waste as per applicable rules. Competition Law.

Competition Law

List of other laws generally applicable to the company. We are attaching herewith the list of laws:

1. Applicable specifically to the Company.
2. Other Laws applicable to the Company

Date:

[For XYZ Limited]

Place:

Director

Opinion obtained by Management

In the certain situations, upon the qualifying remarks of the auditors, the management of the company may submit its replies which may be supported by the opinion provided by the third party. In such cases the reliance on such opinion should be made by the auditor based on his professional judgement and the company may provide the explanation on such qualifications in the Directors report.

Upon consideration of the information produced by the company as audit evidence, the auditor should evaluate whether the information is sufficient and appropriate for purposes of the audit by performing procedures to:

- (a) Test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information; and
- (b) Evaluate whether the information is sufficiently precise and detailed for the purposes of the audit.

Exit Conference

While concluding the audit, the auditor should conduct a meeting with the management of the company or with the group supervisory officers. The audit observations should preferably be shared with such officials beforehand for providing the opportunity to discuss the audit findings and to clarify any point relating to audit and audit observations.

EVALUATION OF AUDIT EVIDENCE AND FORMING OPINION

The Audit evidence plays a significant role in forming of Opinion. Based on such evidence the auditors form their opinion in the report, accordingly the auditor should obtain competent, relevant and reasonable evidence to support his judgement and conclusions.

The competent evidence is information which is quantitatively sufficient and appropriate to achieve the auditing results and is qualitatively impartial to inspire confidence and reliability.

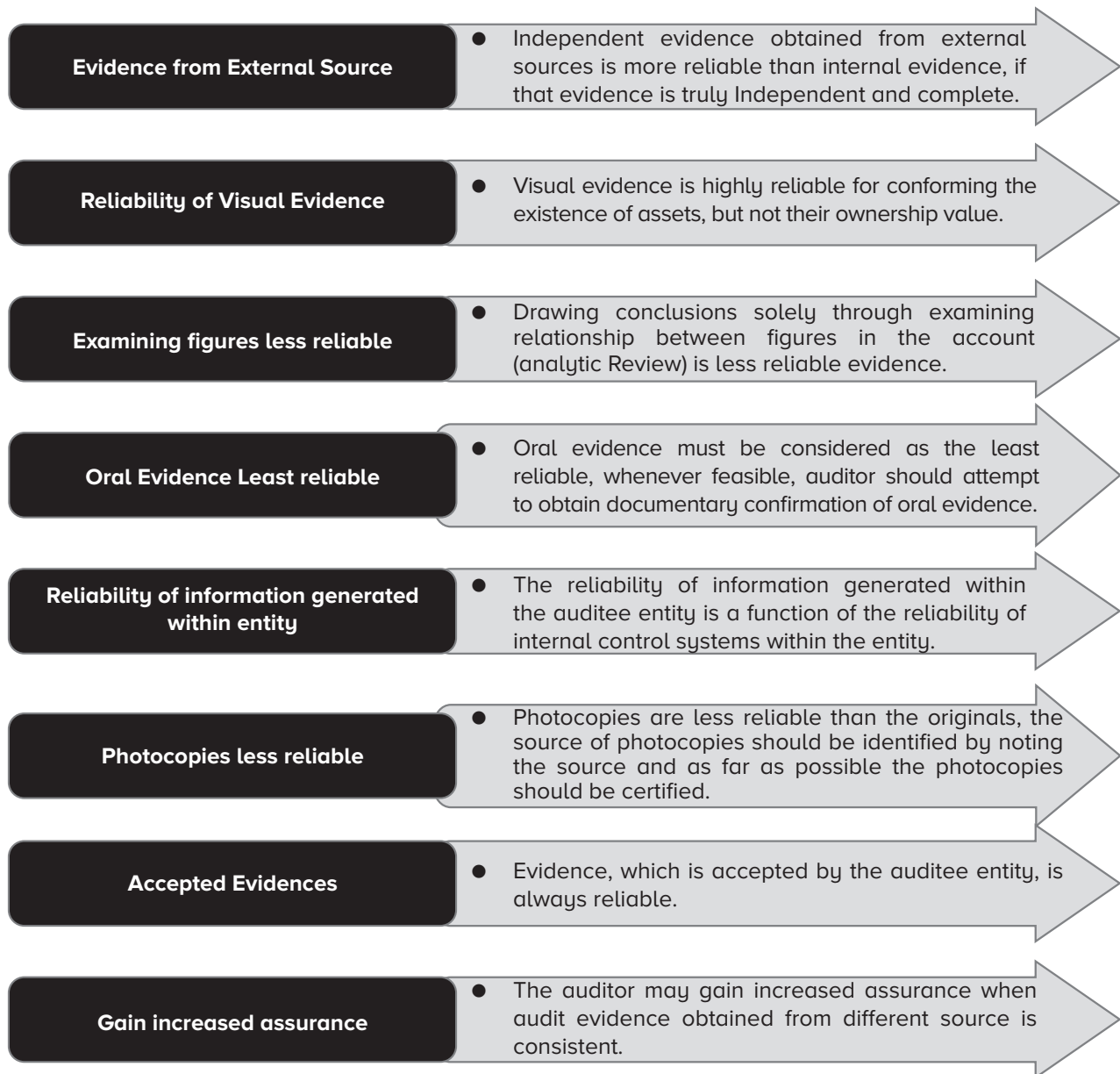
The Reliable audit evidence is evidence that is impartial. The reliability of audit evidence is dependent upon its nature, its source and the method used to obtain it. While collecting the audit evidence the auditor should consider the below:

Reliability of Documentary Evidence

- Documentary evidence is more reliable than oral evidence.

Evidence on Direct Personal Knowledge

- Evidence of which the auditor has direct personal knowledge is the most reliable evidence.



Sharing draft report with management with category of risk involved with each remark and qualification

After the exit meeting and the completion of the audit procedures, the auditor should prepare an executive summary of audit findings. The summary explains the key audit issues, the category of risk, their resolution, agreed adjustments. After discussing the executive summary the audit certificate should be signed by the auditor and by the management or person authorized by the management of the company.

The executive summary is a high-level summary, which explains audit findings, while it is a concise document; it should contain sufficient information to stand alone as a summary of the evidence which supports audit team's conclusion on the appropriate form of audit certificate. The executive summary should include:

- (i) a summary of the auditee's operations and purpose;

- (ii) a summary of the regularly framework within which the auditee operates;
- (iii) an explanation of the audit approach and the balance between test of controls and substantive procedures;
- (iv) a summary of the key risk identified;
- (v) a commentary on key balances;
- (vi) a commentary on the accounting policies and significant account areas;
- (vii) a summary of the result of audit procedures;
- (viii) details of areas where difficult questions of principle or judgement were involved;
- (ix) matters brought forward from previous year audit;
- (x) a summary of other important matters for attention;
- (xi) outstanding matters, for example, outstanding reappointment orders or letter authorizing agreed amendments to the financial statement;
- (xii) a summary of matters carried forward to the next years audit; and
- (xiii) a conclusion on the appropriate form of audit certificate.

The report should clearly mention the process name; significant findings with respect to the criteria; analysis of the consequences of the findings; and recommendations of the auditor. Each observation should be supported by a set of facts and each recommendation to the management should be supported by a business reasons for implementation.

Further, the replies on the auditor's observations and recommendations/comments of the management of the Auditee's company should be obtained and should be recorded in the audit file. Also, in case where the auditor opinion is other than the unmodified opinion, the full rationale should be given in the executive summary.

Different stages of communication and discussion should be as under:

1. **Preliminary Draft:** At the conclusion of fieldwork, the auditor should draft the report and present it to the entity's management for auditee's comments.
2. **Exit Meeting:** The auditor should discuss with the management the findings, observations, recommendations and text of draft and obtain their comment on the draft, achieve consensus and reach an agreement on the audit findings.
3. **Formal Draft:** The auditor should prepare a formal draft, in view of the outcome of the exit meeting and other discussions. Upon review of such changes by the auditor and the management, the final report should be issued.
4. **Final Report:** The report should be submitted to the appointing authority or such members of management, as directed.

Test Yourself

M/s XYZ & Co. Practicing Company Secretary Firm, was appointed as Secretarial Auditor of ABC Ltd. During the conduct of secretarial audit certain irregularities were found. However, before the finalisation of the Report, the Company Secretary of the Company suggested a communication on the subject. Brief the stages involved for communication and discussion to finalise the Final Report of Secretarial Auditor?

AUDITOR'S RESPONSIBILITY

The Auditor's Report shall include a section with the heading "Auditor's Responsibility". Auditor's Report shall state that the responsibility of the Auditor is to express the opinion on the compliance with the applicable laws and maintenance of Records based on audit. The Auditor's Report shall also state that the audit was conducted in accordance with applicable Standard. The Auditor's Report shall also explain that those standards require that the Auditor comply with Statutory and Regulatory requirements and plan and perform the audit to obtain reasonable assurance about compliance with applicable laws and maintenance of Records.

Auditor's Report shall state that due to the inherent limitations of an audit including internal, financial and operating controls, there is an unavoidable risk that some misstatements or material non-compliances may not be detected, even though the audit is properly planned and performed in accordance with the standards.

The Auditor has a responsibility to perform procedures to identify, assess and respond to the risks of material misstatement or non-compliance arising from the Auditee's failure appropriately to account for or disclose an event or transaction.

Auditor's Report includes a separate section with heading "Auditor's Responsibility" that will state or express the opinion of the Auditor about the following:

- Whether the audit has been conducted as per the applicable Auditing Standards.
- Whether the Auditor has obtained reasonable assurance about whether the statements prepared, documents or records maintained by the Auditee are free from misstatement.
- That Auditor has the responsibility to only express his opinion on the evidences collected, information received and records maintained by the Auditee or given by the Management.
- Whether the Auditee has followed applicable laws, act, rules or regulations in maintaining their records, documents, statements, or have complied with applicable laws or rules while performing any corporate action

FORMAT OF REPORT

The report shall be addressed to the Appointing Authority unless otherwise specified in Audit Engagement Letter or provided in the applicable law. The report shall be detailed enough to serve its intended purpose. Where specific formats (like MR-3 for Secretarial Audit Report) are prescribed, those formats shall be followed for reporting. If any information cannot be conveniently captured within the paragraphs of the report, it shall be given in the form of annexure(s).

Signature block shall mention the name of the Audit Firm, the name of the Auditor, along with certificate of practice number, the membership number of the Auditor specifying whether associate or fellow member. The auditor shall clearly mention date and place of signing the report. In case report is signed by two different persons on different dates or different places; same shall be mentioned in the report.

Audit report is the result of the audit performed in as per its scope and objectives. It includes a summary of information and can consist of further observation. In case of an audit of compliances, Audit Report may point out areas of compliance and non-compliance, as well as areas for improvement. The report is addressed to the Appointing Authority or otherwise, as may be prescribed in applicable law, acts rules or regulations. The Appointing Authority would be the Board of Company, in case Auditee is a Company and in other cases, it would be the persons who have been entrusted with the responsibility of governance and compliances of the Auditee. Further, the Appointing Authority may also include Court, Tribunal or Regulators or any officer thereof, depending upon the type of Auditee's entity as explained in the Guidance Note on CSAS-1.

The Audit Report must be prepared in detail so that the purpose of preparing the report and showcasing the true state of affairs of the Auditee can be attained. Furthermore, the Audit Report prepared must be precise, accurate, clear and should be unbiased with suggestions and opinions. The detailed Audit Report means that Auditor

must try to explain and point out each and every minute compliance, non-compliance or any improvement in the business procedures, documents, statements or any transactions or any other area that has been audited so as to form an accurate Audit opinion and in case the provided format of Audit Report as per the laws, rules or regulations is not enough to provide detailed statement, the Auditor shall attach additional annexures or pages to give full disclosures and opinions thereon.

The Audit Report must be signed by one or more Auditors as the case may be at the end of the Audit Report along with the name of their Firm, Firm's Registration No., Designation of the Auditor in the Firm (like partner, proprietor etc.), Certificate of Practice No. and Membership No. of the Auditor, whether the Auditor is a Fellow or Associate member of the Institute. The report must mention the correct date and place of signing and if two Auditors are signing the same report at different date and place then, the same shall be mentioned.

Further, as per Peer Review Guidelines of the ICSI, it is mandatory to mention the Peer Review Certificate Number in Secretarial Audit Report/Annual Secretarial Compliance Report and the signature of the PCS should be in following format:

	For XYZ & Associate Company Secretaries Name
	FCS
Date:.....	CP.....
Place:.....	PR 123/2018

Pre requisite for the Reporting:

An Audit report should be:

- **Accurate** - Free from errors and distortions and faithful to the underlying facts.
- **Objective** - Fair, impartial, and unbiased and is a result of a fair minded and balanced assessment of all significant and relevant information.
- **Clear**-Easily understandable and logical, avoiding unnecessary technical language and providing all significant and relevant information.
- **Concise** - To the point, avoid unnecessary elaboration, superfluous detail, redundancy, repetitiveness and wordiness.
- **Constructive** - Helpful to the engagement client and the organization and leads to improvements where needed.
- **Complete** - Lacking nothing that is essential to the target audience and includes all significant and relevant information and observations to support recommendations and conclusions.
- **Timely** - Opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

Submission of Audit Report

After considering the clarifications/replies of the management, the auditor should prepare the audit report in prescribed format. Sometimes the report is addressed to the members but is to be submitted to the Board. The report shall contain the opinion on the statutory compliances examined by the Auditor and shall state whether in his opinion the company is carrying out/not carrying out due compliances of the applicable provisions of the various laws. The report shall be provided with or without qualifications.

Signing of Audit Report

The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction. In addition to the auditor's signature, in certain jurisdictions, the auditor may be required to declare in the auditor's report the auditor's professional accountancy designation or the fact that the auditor or firm, as appropriate, has been recognized by the appropriate licensing authority in that jurisdiction.

However, in case of secretarial audit report the report should be signed by the secretarial auditor who conducted or under whose supervision the secretarial audit was conducted indicating his FCS/ACS number along with certificate of practice number issued by the Institute of Company Secretaries of India.

In case of PCS firm, the secretarial audit report may be signed by the partner who conducted or under whose supervision the secretarial audit was conducted indicating his FCS/ACS number along with his certificate of practice number. The secretarial audit report cannot be signed by an employee of the PCS firm even if he/she may be a member of the ICSI holding certificate of practice number.

Reporting with Qualification

1. A qualification, reservation or adverse remarks, if any, should be stated by the auditor at the relevant places in his report in bold type or in italics.

Test Yourself

Question: What is the manner of reporting Qualification in the Secretarial Audit Report?

Answer: A qualification, reservation or adverse remarks, if any, should be stated by the Secretarial Auditor at the relevant places in his report in bold type or in italics. If the Secretarial Auditor is unable to express an opinion on any matter, he should mention that he is unable to express an opinion on that matter and the reasons therefor. If the scope of work required to be performed is restricted on account of restrictions imposed by the company or on account of circumstantial limitations (like certain books or papers being in the custody of another person who is not available or a Government Authority), the Report should indicate such limitations. If such limitations are so material that the Secretarial Auditor is unable to express any opinion, the Secretarial Auditor should state that in the absence of necessary information and records, he is unable to report on compliance(s) relating to such areas by the Company. Further, the Board of Directors, in its Board's report, shall explain in full any qualification or observation or other remarks made by the Company Secretary in Practice in the Secretarial Audit Report.

CASE STUDY

ABC Ltd is a listed company. The company has appointed M/s SS & Associates as its secretarial auditor for the FY 2021-2022. The secretarial auditors have conducted the audit and submitted the audit report in Form MR-3 stating that -

During the Audit Period, the Company has complied with the provisions of the Act, Rules, Regulations, Guidelines, Standards etc. mentioned above except to the extent as mentioned below:

(a) *Board composition:*

There were non-compliances with the requirements of Regulation 17(1)(a) & (b) of SEBI (LODR) Regulations, 2015 (SEBI LODR) during part of the Audit Period, as the Company did not have requisite number of Independent Directors on its Board, including no woman Independent Director till 13th November, 2021.

The Company made appointment of 4 Independent Directors including one woman Independent Director on 14th November, 2021. Further, the Company made appointment of 1 (one) more Independent Director on 31st December, 2021. The Company has become compliant with the requirements of Regulation 17(1) (a) of SEBI LODR w.e.f. 14th November, 2021 and Regulation 17(1)(b) of SEBI LODR a w.e.f. 1st January, 2022.

(b) Audit Committee and Nomination & Remuneration Committee:

The Audit Committee and Nomination & Remuneration Committee were not constituted with minimum two Independent Directors as per provisions of Regulations 18 and 19 of the SEBI (LODR) Regulations, 2015 and till 13th November, 2021, as the Company had only one Independent Director on its Board. No meeting of the Audit Committee was convened from 1st April, 2021 to 14th December, 2021. However, mandatory functions of the Audit Committee such as review of quarterly results/annual financial statements and approval of related party transactions etc. were directly reviewed and approved by the Board.

2. If the auditor is unable to express an opinion on any matter, he should mention that he is unable to express an opinion on that matter and the reasons therefor.
3. If the scope of work required to be performed is restricted on account of restrictions imposed by the company or on account of circumstantial limitations (like certain books or papers being in the custody of another person who is not available or a government authority), the report should indicate such limitations.
4. If such limitations are so material that the Auditor is unable to express any opinion, the Auditor should state that in the absence of necessary information and records, he is unable to report on compliance(s) relating to such areas by the Company.

Further, the Board of directors, in its report prepared under section 134(3) of the Companies Act, 2013, shall provide an explanation in full on any qualification or observation or other remarks made by the Company Secretary in practice in the secretarial audit report.

LESSON ROUND-UP

- An unqualified opinion contains no reservations concerning the company. This is also known as a “clean” opinion, meaning that the affairs of the company are presented fairly.
- The auditor should express modified opinion when the auditor concludes that there is non-compliance, with the applicable laws in terms of timelines and process or the records as a whole are not free from misstatement; etc.
- The modification on opinion can be in the following three categories depending upon the nature and severity /extremity of the matter under consideration: the qualified opinion; the adverse opinion; the disclaimer of opinion.
- The auditor should obtain audit evidence which are competent, relevant and reasonable evidence to support his judgement and conclusions.
- An Audit report should be Accurate, Clear, Concise, Constructive and Complete.
- This Auditing Standard on Forming of opinion is applicable to the Auditor undertaking Audit under any statute. The Standard deals with basis and manner for forming Auditor’s opinion on subject matter of the audit. This standard aims to promote consistency in opinion forming and reporting thereof to enable users of the report to identify the audit findings.
- “Misstatement” means any information or statement which is false, incorrect, incomplete, misleading or misrepresents, omits or suppresses a material fact.

- An Opinion can be considered as a qualified opinion when the auditor specifically provides the additional paragraph or points out the specific instances where the company has failed to do compliance as required under the law, or provides reasons for the not issuing the unqualified report on the affairs of the company.
- An Opinion can be considered as an adverse opinion, which is considered as the Out of track Opinion, wherein the auditor concluded that the affairs of the company are not in line with its objectives, government rules, and the company has neglected and grossly misstated its records.
- Instances, where the auditor is unable to access the records of the company on any grounds such as geographical reasons, regulatory, natural calamity or could not complete the audit due to absence of requisite records or insufficient co-operation from management, the auditor issues a disclaimer of opinion.

GLOSSARY

Misstatement: Misstatement means any information or statement which is false, incorrect, incomplete, misleading or misrepresents, omits or suppresses a material fact

Materiality: Materiality is the threshold above which missing or incorrect information is considered to have an impact on the decision making of the Auditor. Information is considered as material if its omission or misstatement could influence the opinion of the Auditor. Materiality can also be construed in terms of net impact

Third Party: Third Party means any person who does not have a direct connection with the audit but whose inputs or opinion might influence the audit conclusion and includes an expert

Advocacy threat: There is an apparent threat to the Auditor's objectivity, if he becomes an advocate for (or against) the Auditee's position in any adversarial proceedings or situations

PCS: Practicing Company Secretary

ACS: Associate Company Secretary

FCS: Fellow Company Secretary.

TEST YOURSELF

(These are meant for recapitulation only, answer to these questions are not to be submitted for evaluation)

1. What do you mean by Audit Opinion and describe the various forms of Auditor's Opinion?
2. Explain under what circumstances the Auditor should express the Qualified Opinion and how the Auditor should express the same in the audit report.
3. Explain the manner for signing of secretarial audit report.
4. "Materiality" is the threshold above which missing or incorrect information is considered to have an impact on the decision making of the Auditor. In context of the above lines explain the concept of materiality.
5. Threats to objectivity can arise in a number of ways, some general in nature and some related to the specific circumstances of an assignment or role. Explain the threats to objectivity.
6. The Auditor shall adhere to generally accepted precedence and practices in relation to forming of an opinion as may be available from historical perspective of any kind of audit. Elucidate.
7. Objectivity is essential for any Secretarial Auditor in exercising professional judgement during the audit. In light of above statement, explain the term objectivity and various threats to Auditor's Objectivity in detail.

