

**SA 705**

**Modifications to the Opinion in the  
Independent Auditor's Report**  
*(Effective for all audits relating to  
accounting periods beginning on or after April 1, 2017)*

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**Introduction**

**Scope of this SA**

1. This Standard on Auditing (SA) deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700 (Revised),<sup>1</sup> the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary. This SA also deals with how the form and content of the auditor's report is affected when the auditor expresses a modified opinion. In all cases, the reporting requirements in SA 700 (Revised) apply, and are not repeated in this SA unless they are explicitly addressed or amended by the requirements of this SA.

**Types of Modified Opinions**

2. This SA establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:

- (a) The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
- (b) The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements. (Ref: Para. A1)

**Effective Date**

3. This SA is effective for audits of financial statements for periods beginning on or after April 1, 2017.

**Objective**

4. The objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that is necessary when:

- (a) The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or

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<sup>1</sup> SA 700 (Revised), Forming an Opinion and Reporting on Financial Statements

- (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

### **Definitions**

5. For purposes of the SAs, the following terms have the meanings attributed below:
- (a) Pervasive – A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor’s judgment:
    - (i) Are not confined to specific elements, accounts or items of the financial statements;
    - (ii) If so confined, represent or could represent a substantial proportion of the financial statements; or
    - (iii) In relation to disclosures, are fundamental to users’ understanding of the financial statements.
  - (b) Modified opinion – A qualified opinion, an adverse opinion or a disclaimer of opinion on the financial statements.

### **Requirements**

#### **Circumstances When a Modification to the Auditor’s Opinion is Required**

6. The auditor shall modify the opinion in the auditor’s report when:
- (a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or (Ref: Para. A2–A7)
  - (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. (Ref: Para. A8– A12)

#### **Determining the Type of Modification to the Auditor’s Opinion**

##### *Qualified Opinion*

7. The auditor shall express a qualified opinion when:
- (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
  - (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

##### *Adverse Opinion*

8. The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

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### *Disclaimer of Opinion*

9. The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

10. The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

### *Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement*

11. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation.

12. If management refuses to remove the limitation referred to in paragraph 11 of this SA, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity,<sup>2</sup> and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

13. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:

- (a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
- (b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:
  - (i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or (Ref: Para. A13)
  - (ii) If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements. (Ref. Para. A14)

14. If the auditor withdraws as contemplated by paragraph 13(b)(i), before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion. (Ref: Para. A15)

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<sup>2</sup> SA 260 (Revised), Communication with Those Charged with Governance, paragraph 13

*Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion*

15. When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, the auditor's report shall not also include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement. To include such an unmodified opinion in the same report<sup>3</sup> in these circumstances would contradict the auditor's adverse opinion or disclaimer of opinion on the financial statements as a whole. (Ref: Para. A16)

**Form and Content of the Auditor's Report When the Opinion is Modified**

*Auditor's Opinion*

16. When the auditor modifies the audit opinion, the auditor shall use the heading "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion," as appropriate, for the Opinion section. (Ref: Para. A17–A19)

*Qualified Opinion*

17. When the auditor expresses a qualified opinion due to a material misstatement in the financial statements, the auditor shall state that, in the auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion section:

- (a) When reporting in accordance with a fair presentation framework, the accompanying financial statements present fairly, in all material respects (or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework]; or
- (b) When reporting in accordance with a compliance framework, the accompanying financial statements have been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor shall use the corresponding phrase "except for the possible effects of the matter(s) ..." for the modified opinion. (Ref: Para. A20)

*Adverse Opinion*

18. When the auditor expresses an adverse opinion, the auditor shall state that, in the auditor's opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion section:

- (a) When reporting in accordance with a fair presentation framework, the accompanying financial statements do not present fairly (or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework]; or
- (b) When reporting in accordance with a compliance framework, the accompanying financial statements have not been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

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<sup>3</sup> SA 805, Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement, deals with circumstances where the auditor is engaged to express a separate opinion on one or more specific elements, accounts or items of a financial statement.

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### Disclaimer of Opinion

19. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall:

- (a) State that the auditor does not express an opinion on the accompanying financial statements;
- (b) State that, because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and
- (c) Amend the statement required by paragraph 24(b) of SA 700 (Revised), which indicates that the financial statements have been audited, to state that the auditor was engaged to audit the financial statements.

### *Basis for Opinion*

20. When the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by SA 700 (Revised): (Ref: Para. A21)

- (a) Amend the heading "Basis for Opinion" required by paragraph 28 of SA 700 (Revised) to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion," as appropriate; and
- (b) Within this section, include a description of the matter giving rise to the modification.

21. If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures in the notes to the financial statements), the auditor shall include in the Basis for Opinion section a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor shall so state in this section. (Ref: Para. A22)

22. If there is a material misstatement of the financial statements that relates to narrative disclosures, the auditor shall include in the Basis for Opinion section an explanation of how the disclosures are misstated.

23. If there is a material misstatement of the financial statements that relates to the non-disclosure of information required to be disclosed, the auditor shall:

- (a) Discuss the non-disclosure with those charged with governance;
- (b) Describe in the Basis for Opinion section the nature of the omitted information; and
- (c) Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information. (Ref: Para. A23)

24. If the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor shall include in the Basis for Opinion section the reasons for that inability.

25. When the auditor expresses a qualified or adverse opinion, the auditor shall amend the

statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion required by paragraph 28(d) of SA 700 (Revised) to include the word "qualified" or "adverse", as appropriate.

26. When the auditor disclaims an opinion on the financial statements, the auditor's report shall not include the elements required by paragraphs 28(b) and 28(d) of SA 700 (Revised). Those elements are:

- (a) A reference to the section of the auditor's report where the auditor's responsibilities are described; and
- (b) A statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

27. Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the auditor shall describe in the Basis for Opinion section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof. (Ref: Para. A24)

*Description of Auditor's Responsibilities for the Audit of the Financial Statements When the Auditor Disclaims an Opinion on the Financial Statements*

28. When the auditor disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the description of the auditor's responsibilities required by paragraphs 38–40 of SA 700 (Revised) to include only the following: (Ref: Para. A25)

- (a) A statement that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with Standards on Auditing and to issue an auditor's report;
- (b) A statement that, however, because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and
- (c) The statement about auditor independence and other ethical responsibilities required by paragraph 28(c) of SA 700 (Revised).

*Considerations When the Auditor Disclaims an Opinion on the Financial Statements*

- Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report shall not include a Key Audit Matters section in accordance with SA 701.<sup>4</sup> (Ref: Para. A26)

**Communication with Those Charged with Governance**

- When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the wording of the modification. (Ref: Para. A27)

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<sup>4</sup>SA 701, Communicating Key Audit Matters in the Independent Auditor's Report, paragraphs 11–13

### Application and Other Explanatory Material

#### Types of Modified Opinions (Ref: Para. 2)

A1. The table below illustrates how the auditor's judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed.

<b>Nature of Matter Giving Rise to the Modification</b>	<b>Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements</b>	
	<b>Material but Not Pervasive</b>	<b>Material and Pervasive</b>
Financial statements Are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

#### Circumstances When a Modification to the Auditor's Opinion is Required

##### *Nature of Material Misstatements* (Ref: Para. 6(a))

A2. SA 700 (Revised) requires the auditor, in order to form an opinion on the financial statements, to conclude as to whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement.<sup>5</sup> This conclusion takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements in accordance with SA 450.<sup>6</sup>

A3. SA 450 defines a misstatement as a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Accordingly, a material misstatement of the financial statements may arise in relation to:

- (a) The appropriateness of the selected accounting policies;
- (b) The application of the selected accounting policies; or
- (c) The appropriateness or adequacy of disclosures in the financial statements.

##### Appropriateness of the Selected Accounting Policies

A4. In relation to the appropriateness of the accounting policies management has selected,

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<sup>5</sup> SA 700 (Revised), paragraph 11

<sup>6</sup> SA 450, Evaluation of Misstatements Identified during the Audit, paragraph 11

material misstatements of the financial statements may arise when:

- (a) The selected accounting policies are not consistent with the applicable financial reporting framework; or
- (b) The financial statements, including the related notes, do not represent the underlying transactions and events in a manner that achieves fair presentation.

A5. Financial reporting frameworks often contain requirements for the accounting for, and disclosure of, changes in accounting policies. Where the entity has changed its selection of significant accounting policies, a material misstatement of the financial statements may arise when the entity has not complied with these requirements.

#### Application of the Selected Accounting Policies

A6. In relation to the application of the selected accounting policies, material misstatements of the financial statements may arise:

- (a) When management has not applied the selected accounting policies consistently with the financial reporting framework, including when management has not applied the selected accounting policies consistently between periods or to similar transactions and events (consistency in application); or
- (b) Due to the method of application of the selected accounting policies (such as an unintentional error in application).

#### Appropriateness or Adequacy of Disclosures in the Financial Statements

A7. In relation to the appropriateness or adequacy of disclosures in the financial statements, material misstatements of the financial statements may arise when:

- (a) The financial statements do not include all of the disclosures required by the applicable financial reporting framework;
- (b) The disclosures in the financial statements are not presented in accordance with the applicable financial reporting framework; or
- (c) The financial statements do not provide the disclosures necessary to achieve fair presentation.

#### *Nature of an Inability to Obtain Sufficient Appropriate Audit Evidence (Ref: Para. 6(b))*

A8. The auditor's inability to obtain sufficient 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 entity;
- (b) Circumstances relating to the nature or timing of the auditor's work; or
- (c) Limitations imposed by management.

A9. An inability to perform a specific procedure does not constitute a limitation on the scope of the audit if the auditor is able to obtain sufficient appropriate audit evidence by performing alternative procedures. If this is not possible, the requirements of paragraphs 7(b) and 9–10 apply as appropriate. Limitations imposed by management may have other implications for the audit, such as for the auditor's assessment of fraud risks and

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consideration of engagement continuance.

A10. Examples of circumstances beyond the control of the entity include when:

- The entity's accounting records have been destroyed.
- The accounting records of a significant component have been seized indefinitely by governmental authorities.

A11. Examples of circumstances relating to the nature or timing of the auditor's work include when:

- The entity is required to use the equity method of accounting for an associated entity, and the auditor is unable to obtain sufficient appropriate audit evidence about the latter's financial information to evaluate whether the equity method has been appropriately applied.
- The timing of the auditor's appointment is such that the auditor is unable to observe the counting of the physical inventories.
- The auditor determines that performing substantive procedures alone is not sufficient, but the entity's controls are not effective.

A12. Examples of an inability to obtain sufficient appropriate audit evidence arising from a limitation on the scope of the audit imposed by management include when:

- Management prevents the auditor from observing the counting of the physical inventory.
- Management prevents the auditor from requesting external confirmation of specific account balances.

### **Determining the Type of Modification to the Auditor's Opinion**

*Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement* (Ref: Para. 13(b)(i)–14)

A13. The practicality of withdrawing from the audit may depend on the stage of completion of the engagement at the time that management imposes the scope limitation. If the auditor has substantially completed the audit, the auditor may decide to complete the audit to the extent possible, disclaim an opinion and explain the scope limitation within the Basis for Disclaimer of Opinion section prior to withdrawing.

A14. In certain circumstances, withdrawal from the audit may not be possible if the auditor is required by law or regulation to continue the audit engagement. This may be the case for an auditor that is appointed to audit the financial statements of public sector entities. It may also be the case in entities where the auditor is appointed to audit the financial statements covering a specific period, or appointed for a specific period and is prohibited from withdrawing before the completion of the audit of those financial statements or before the end of that period, respectively. The auditor may also consider it necessary to include an

Other Matter paragraph in the auditor's report.<sup>7</sup>

A15. When the auditor concludes that withdrawal from the audit is necessary because of a scope limitation, there may be a professional, legal or regulatory requirement for the auditor to communicate matters relating to the withdrawal from the engagement to regulators or the entity's owners.

*Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion* (Ref: Para. 15)

A16. The following are examples of reporting circumstances that would not contradict the auditor's adverse opinion or disclaimer of opinion:

- The expression of an unmodified opinion on financial statements prepared under a given financial reporting framework and, within the same report, the expression of an adverse opinion on the same financial statements under a different financial reporting framework.<sup>8</sup>
- The expression of a disclaimer of opinion regarding the results of operations, and cash flows, where relevant, and an unmodified opinion regarding the financial position (see SA 510<sup>9</sup>). In this case, the auditor has not expressed a disclaimer of opinion on the financial statements as a whole.

### **Form and Content of the Auditor's Report When the Opinion Is Modified**

*Illustrative Auditor's Reports* (Ref: Para. 16)

A17. Illustrations 1 and 2 in the Appendix contain auditor's reports with qualified and adverse opinions, respectively, as the financial statements are materially misstated.

A18. Illustration 3 in the Appendix contains an auditor's report with a qualified opinion as the auditor is unable to obtain sufficient appropriate audit evidence. Illustration 4 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about a single element of the financial statements. Illustration 5 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. In each of the latter two cases, the possible effects on the financial statements of the inability are both material and pervasive. The Appendices to other SAs that include reporting requirements, including SA 570 (Revised),<sup>10</sup> also include illustrations of auditor's reports with modified opinions.

*Auditor's Opinion* (Ref: Para. 16)

A19. Amending this heading makes it clear to the user that the auditor's opinion is modified and indicates the type of modification.

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<sup>7</sup> SA 706 (Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report, paragraph A10

<sup>8</sup> See paragraph A25 of SA 700 (Revised) for a description of this circumstance.

<sup>9</sup> SA 510, Initial Audit Engagements — Opening Balances, paragraph 10 and A5

<sup>10</sup> SA 570 (Revised), Going Concern

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Qualified Opinion (Ref: Para. 17)

A20. When the auditor expresses a qualified opinion, it would not be appropriate to use phrases such as “with the foregoing explanation” or “subject to” in the Opinion section as these are not sufficiently clear or forceful.

*Basis for Opinion* (Ref: Para. 20, 21, 23, 27)

A21. Consistency in the auditor’s report helps to promote users’ understanding and to identify unusual circumstances when they occur. Accordingly, although uniformity in the wording of a modified opinion and in the description of the reasons for the modification may not be possible, consistency in both the form and content of the auditor’s report is desirable.

A22. An example of the financial effects of material misstatements that the auditor may describe within the Basis for Opinion section in the auditor’s report is the quantification of the effects on income tax, income before taxes, net income and equity if inventory is overstated.

A23. Disclosing the omitted information within the Basis for Opinion section would not be practicable if:

- (a) The disclosures have not been prepared by management or the disclosures are otherwise not readily available to the auditor; or
- (b) In the auditor’s judgment, the disclosures would be unduly voluminous in relation to the auditor’s report.

A24. An adverse opinion or a disclaimer of opinion relating to a specific matter described within the Basis for Opinion section does not justify the omission of a description of other identified matters that would have otherwise required a modification of the auditor’s opinion. In such cases, the disclosure of such other matters of which the auditor is aware may be relevant to users of the financial statements.

*Description of Auditor’s Responsibilities for the Audit of the Financial Statements When the Auditor Disclaims an Opinion on the Financial Statements* (Ref: Para. 28)

A25. When the auditor disclaims an opinion on the financial statements, the following statements are better positioned within the Auditor’s Responsibilities for the Audit of the Financial Statements section of the auditor’s report, as illustrated in Illustrations 4–5 of the Appendix to this SA:

- The statement required by paragraph 28(a) of SA 700 (Revised), amended to state that the auditor’s responsibility is to conduct an audit of the entity’s financial statements in accordance with SAs; and
- The statement required by paragraph 28(c) of SA 700 (Revised) about independence and other ethical responsibilities.

*Considerations When the Auditor Disclaims an Opinion on the Financial Statements* (Ref: Para. 29)

A26. Providing the reasons for the auditor’s inability to obtain sufficient appropriate audit evidence within the Basis for Disclaimer of Opinion section of the auditor’s report provides useful information to users in understanding why the auditor has disclaimed an opinion on the financial statements and may further guard against inappropriate reliance on them.

However, communication of any key audit matters other than the matter(s) giving rise to the disclaimer of opinion may suggest that the financial statements as a whole are more credible in relation to those matters than would be appropriate in the circumstances, and would be inconsistent with the disclaimer of opinion on the financial statements as a whole. Accordingly, paragraph 29 of this SA prohibits a Key Audit Matters section from being included in the auditor's report when the auditor disclaims an opinion on the financial statements, unless the auditor is otherwise required by law or regulation to communicate key audit matters.

**Communication with Those Charged with Governance** (Ref: Para. 30)

A27. Communicating with those charged with governance the circumstances that lead to an expected modification to the auditor's opinion and the wording of the modification enables:

- The auditor to give notice to those charged with governance of the intended modification(s) and the reasons (or circumstances) for the modification(s);
- The auditor to seek the concurrence of those charged with governance regarding the facts of the matter(s) giving rise to the expected modification(s), or to confirm matters of disagreement with management as such; and
- Those charged with governance to have an opportunity, where appropriate, to provide the auditor with further information and explanations in respect of the matter(s) giving rise to the expected modification(s).

**Appendix**

(Ref: Para. A17–A18, A25)

**Illustrations of Auditor's Reports with Modifications to the Opinion**

- Illustration 1: An auditor's report containing a qualified opinion due to a material misstatement of the financial statements.
- Illustration 2: An auditor's report containing an adverse opinion due to a material misstatement of the consolidated financial statements.
- Illustration 3: An auditor's report containing a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence regarding a foreign associate.
- Illustration 4: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements.
- Illustration 5: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements.

**Illustration 1 – Qualified Opinion due to a Material Misstatement of the Financial Statements**

*For purposes of this illustrative auditor's report, the following circumstances are assumed:*

- *Audit of a complete set of financial statements of a listed company (registered under the*

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*Companies Act, 2013) using a fair presentation framework.*

- *The financial statements are prepared by management of the entity in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013 (a general purpose framework).*
- *The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SA 210.<sup>11</sup>*
- *Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements (i.e., a qualified opinion is appropriate).*
- *The relevant ethical requirements that apply to the audit are the ICAI's Code of Ethics and the provisions of the Companies Act, 2013.*
- *Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570 (Revised).*
- *Key audit matters have been communicated in accordance with SA 701.*
- *Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.*
- *In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.*

### **INDEPENDENT AUDITOR'S REPORT**

To the Members of ABC Company Limited

#### **Report on the Audit of the Standalone Financial Statements<sup>12</sup>**

##### **Qualified Opinion**

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at March 31, 20XX, and the statement of Profit and Loss, (*statement of changes in equity*)<sup>13</sup> and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information (in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at (*location of branches*))<sup>14</sup>.

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the aforesaid financial statements give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31<sup>st</sup>, 20XX

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<sup>11</sup> SA 210, Agreeing the Terms of Audit Engagements

<sup>12</sup> The sub-title "Report on the Audit of the Standalone Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>13</sup> As may be applicable.

<sup>14</sup> As may be applicable.

and profit/loss, (*changes in equity*) and its cash flows for the year ended on that date.

### **Basis for Qualified Opinion**

The Company's inventories are carried in the Balance Sheet at Rs. XXX. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from the Accounting Standards prescribed under section 133 of the Companies Act, 2013. The Company's records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of Rs. xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by Rs. xxx, and income tax, net income and shareholders' funds would have been reduced by Rs. xxx, Rs. xxx and Rs. xxx, respectively.

We conducted our audit in accordance with Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ICAI's Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

*[Description of each key audit matter in accordance with SA 701.]*

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

*[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]*

### **Auditor's Responsibilities for the Audit of the Financial Statements**

*[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]*

### **Other Matter<sup>15</sup>**

We did not audit the financial statements/information of \_\_\_\_\_(number) branches included in the standalone financial statements of the Company whose financial statements / financial information reflect total assets of Rs.\_\_\_\_\_ as at 31st March, 20XX and total revenues of Rs.\_\_\_\_\_ for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of these branches have been audited by the \_\_\_\_\_

<sup>15</sup> Where applicable.

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branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of these branches, is based solely on the report of such branch auditors.

Our opinion is not modified in respect of this matter.

### **Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]*

For XYZ & Co  
Chartered Accountants  
(Firm's Registration No.)

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>16</sup>)  
(Membership No. XXXXX)

Place of Signature:

Date:

### **Illustration 2 – Adverse Opinion due to a Material Misstatement of the Consolidated Financial Statements**

*For purposes of this illustrative auditor's report, the following circumstances are assumed:*

- *Audit of a complete set of consolidated financial statements of a listed company (incorporated under the Companies Act, 2013) using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., SA 600 applies).*
- *The consolidated financial statements are prepared by management of the entity in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013 (a general purpose framework).*
- *The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in SA 210.*
- *The consolidated financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so (i.e., an adverse opinion is appropriate).*
- *The relevant ethical requirements that apply to the audit are the ICAI's Code of Ethics and the provisions of the Companies Act, 2013.*
- *Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570 (Revised).*
- *SA 701 applies; however, the auditor has determined that there are no key audit matters*

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<sup>16</sup> Partner or Proprietor, as the case may be

*other than the matter described in the Basis for Adverse Opinion section.*

- *Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.*
- *In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.*

## **INDEPENDENT AUDITOR'S REPORT**

To the Members of ABC Company Limited

### **Report on the Audit of the Consolidated Financial Statements<sup>17</sup>**

#### **Adverse Opinion**

We have audited the accompanying consolidated financial statements of ABC Company Limited (hereinafter referred to as the "Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group"), its associates and jointly controlled entities, which comprise the consolidated balance sheet as at March 31, 20XX, the consolidated statement of profit and Loss, (*consolidated statement of changes in equity*)<sup>18</sup> and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "consolidated financial statements").

In our opinion and to the best of our information and according to the explanations given to us, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying consolidated financial statements do not give a true and fair view in conformity with the accounting principles generally accepted in India, of their consolidated state of affairs of the Group, its associates and jointly controlled entities, as at March 31, 20XX, of its consolidated profit/loss, (*consolidated position of changes in equity*)<sup>19</sup> and the consolidated cash flows for the year then ended.

#### **Basis for Adverse Opinion**

As explained in Note X, the Group has not consolidated subsidiary XYZ Company that the Group acquired during 20XX because it has not yet been able to determine the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under the accounting principles generally accepted in India, the Group should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had XYZ Company been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

We conducted our audit in accordance with Standards on Auditing (SAs) specified under

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<sup>17</sup> The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>18</sup> Where applicable.

<sup>19</sup> Where applicable.

## **I.640 Auditing Pronouncements**

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section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group, its associates and jointly controlled entities, in accordance with the Code of Ethics and provisions of the Companies Act, 2013 that are relevant to our audit of the consolidated financial statements in India under the Companies Act, 2013, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics and the requirements under the Companies act, 2013. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

### **Key Audit Matters**

Except for the matter described in the *Basis for Adverse Opinion* section, we have determined that there are no other key audit matters to communicate in our report.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements<sup>20</sup>**

[Reporting in accordance with SA 700 (Revised) – see Illustration 2 in SA 700 (Revised).]

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

[Reporting in accordance with SA 700 (Revised) – see Illustration 2 in SA 700 (Revised).]

### **Report on Other Legal and Regulatory Requirements**

[Reporting in accordance with SA 700 (Revised) – see Illustration 2 in SA 700 (Revised).]

For XYZ & Co  
Chartered Accountants  
(Firm's Registration No.)

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>21</sup>)  
(Membership No. XXXXX)

Place of Signature:

Date:

### **Illustration 3 – Qualified Opinion due to the Auditor's Inability to Obtain Sufficient Audit Evidence Regarding a Foreign Associate**

*For purposes of this illustrative auditor's report, the following circumstances are assumed:*

- *Audit of a complete set of consolidated financial statements of a listed Company (incorporated under the Companies Act, 2013) using a fair presentation framework. The audit is a group audit of an entity with subsidiaries, associates and jointly controlled entities (i.e., SA 600 applies).*
- *The consolidated financial statements are prepared by management of the entity in*

<sup>20</sup> Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction.

<sup>21</sup> Partner or Proprietor, as the case may be

*accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013.*

- *The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in SA 210.*
- *The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the consolidated financial statements (i.e., a qualified opinion is appropriate).*
- *The relevant ethical requirements that apply to the audit are the ICAI's Code of Ethics and the relevant provisions of the Companies Act, 2013.*
- *Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570 (Revised).*
- *Key audit matters have been communicated in accordance with SA 701.*
- *Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.*
- *In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.*

#### **INDEPENDENT AUDITOR'S REPORT**

To the Members of ABC Company Limited

#### **Report on the Audit of the Consolidated Financial Statements<sup>22</sup>**

##### **Qualified Opinion**

We have audited the accompanying consolidated financial statements of ABC Company Limited (hereinafter referred to as the "Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group"), its associates and jointly controlled entities, which comprise the consolidated balance sheet as at March 31, 20XX, and the consolidated statement of Profit and Loss, (*consolidated statement of changes in equity*)<sup>23</sup> and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as "the consolidated financial statements").

In our opinion and to the best of our information and according to the explanations given to us, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the aforesaid consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India, of their consolidated state of affairs as at March 31, 2XXX, consolidated profit/loss,

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<sup>22</sup> The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>23</sup> Where applicable.

## **I.642 Auditing Pronouncements**

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*(consolidated changes in equity)*<sup>24</sup>, consolidated cash flows for the year then ended.

### **Basis for Qualified Opinion**

The Group's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at Rs. xxx on the consolidated balance sheet as at March 31, 20XX, and ABC's share of XYZ's net income of xxx is included in ABC's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at March 31, 2XXX and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with Standards on Auditing (SAs) prescribed under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group and its associates and joint ventures in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in India in terms of the Code of Ethics issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 2013, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

*[Description of each key audit matter in accordance with SA 701.]*

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**<sup>25</sup>

*[Reporting in accordance with SA 700 (Revised) – see Illustration 2 in SA 700 (Revised).]*

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

*[Reporting in accordance with SA 700 (Revised) – see Illustration 2 in SA 700 (Revised).]*

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<sup>24</sup> Where applicable.

<sup>25</sup> Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction

**Report on Other Legal and Regulatory Requirements**

[Reporting in accordance with SA 700 (Revised) – see Illustration 2 in SA 700 (Revised).]

For XYZ & Co  
Chartered Accountants  
(Firm's Registration No.)

Signature  
(Name of the Member signing the Audit Report)  
(Designation<sup>26</sup>)  
(Membership No. XXXXX)

Place of Signature:

Date:

**Illustration 4 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about a Single Element of the Consolidated Financial Statements**

*For purposes of this illustrative auditor's report, the following circumstances are assumed:*

- *Audit of a complete set of consolidated financial statements of an unlisted Company incorporated under the Companies Act, 2013 using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., SA 600 applies).*
- *The consolidated financial statements are prepared by management of the entity in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013(a general purpose framework).*
- *The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in SA 210.*
- *The auditor was unable to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements. That is, the auditor was also unable to obtain audit evidence about the financial information of a joint venture investment that represents over 90% of the entity's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the consolidated financial statements (i.e., a disclaimer of opinion is appropriate).*
- *The relevant ethical requirements that apply to the audit are the ICAI's Code of Ethics and provisions of the Companies Act, 2013.*
- *Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.*
- *A more limited description of the auditor's responsibilities section is required.*

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<sup>26</sup> Partner or Proprietor, as the case may be

## **I.644 Auditing Pronouncements**

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- *In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013*

### **INDEPENDENT AUDITOR'S REPORT**

To the Members of ABC Company Limited

#### **Report on the Audit of the Consolidated Financial Statements<sup>27</sup>**

##### **Disclaimer of Opinion**

We were engaged to audit the accompanying consolidated financial statements of ABC Company Limited (hereinafter referred to as the "Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group"), which comprise the consolidated balance sheet as at March 31, 20XX, the consolidated statement of Profit and Loss, (*consolidated statement of changes in equity*)<sup>28</sup> and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "Consolidated Financial Statements").

We do not express an opinion on the accompanying consolidated financial statements of the Group. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

##### **Basis for Disclaimer of Opinion**

The Group's investment in its joint venture XYZ Company is carried at Rs. xxx on the Group's consolidated balance sheet, which represents over 90% of the Group's net assets as at March 31, 20XX. We were not allowed access to the management and the auditors of XYZ Company, including XYZ Company's auditors' audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of XYZ Company's assets that it controls jointly, its proportional share of XYZ Company's liabilities for which it is jointly responsible, its proportional share of XYZ's income and expenses for the year, (*and the elements making up the consolidated statement of changes in equity*)<sup>29</sup> and the consolidated cash flow statement.

##### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements<sup>30</sup>**

*[Reporting in accordance with SA 700 (Revised) – see Illustration 2 in SA 700 (Revised).]*

##### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our responsibility is to conduct an audit of the Group's consolidated financial statements in

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<sup>27</sup> The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>28</sup> Where applicable.

<sup>29</sup> Where applicable.

<sup>30</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

accordance with Standards on Auditing and to issue an auditor's report. However, because of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

**Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with SA 700 (Revised) – see Illustration 2 in SA 700 (Revised).]*

For XYZ & Co  
Chartered Accountants  
(Firm's Registration No.)

Signature  
(Name of the Member signing the Audit Report)  
(Designation<sup>31</sup>)  
(Membership No. XXXXX)

Place of Signature:

Date:

**Illustration 5 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Statements**

*For purposes of this illustrative auditor's report, the following circumstances are assumed:*

- *Audit of a complete set of financial statements of an entity other than a company incorporated under the Companies Act, 2013, using a fair presentation framework. The audit is not a group audit (i.e., SA 600, does not apply).*
- *The financial statements are prepared by management of the entity in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India (a general purpose framework).*
- *The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SA 210.*
- *The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements, that is, the auditor was also unable to obtain audit evidence about the entity's inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements.*

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<sup>31</sup> Partner or Proprietor, as the case may be

## I.646 Auditing Pronouncements

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- *The relevant ethical requirements that apply to the audit are ICAI's Code of Ethics and applicable law/regulation*
- *Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.*
- *A more limited description of the auditor's responsibilities section is required.*
- *In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under relevant law/ regulation.*

### **INDEPENDENT AUDITOR'S REPORT**

To the Partners of ABC & Associates

#### **Report on the Audit of the Financial Statements**<sup>32</sup>

##### **Disclaimer of Opinion**

We were engaged to audit the financial statements of ABC & Associates ("the entity"), which comprise the balance sheet as at March 31, 20XX, the statement of Profit and Loss, (*the statement of changes in equity*)<sup>33</sup> and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the entity. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

##### **Basis for Disclaimer of Opinion**

We were not appointed as auditors of the Company until after March 31, 20X1 and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at March 31, 20X0 and 20X1, which are stated in the Balance Sheets at Rs xxx and Rs xxx, respectively. In addition, the introduction of a new computerized accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the Balance Sheet at a total amount of Rs xxx as at March 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of Profit and Loss (*and statement of cash flows*)<sup>34</sup>.

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<sup>32</sup> The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>33</sup> Where applicable.

<sup>34</sup> Where applicable.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>35</sup>**

*[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]*

**Auditor’s Responsibilities for the Audit of the Financial Statements**

Our responsibility is to conduct an audit of the entity’s financial statements in accordance with Standards on Auditing and to issue an auditor’s report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the entity in accordance with the ethical requirements in accordance with the requirements of the Code of Ethics issued by ICAI and the ethical requirements as prescribed under the laws and regulations applicable to the entity.

**Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]*

For XYZ & Co  
Chartered Accountants  
(Firm’s Registration No.)

Signature  
(Name of the Member signing the Audit Report)  
(Designation<sup>36</sup>)  
(Membership No. XXXXX)

Place of Signature:

Date:

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<sup>35</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

<sup>36</sup> Partner or Proprietor, as the case may be

## SA 706

# Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

*(Effective for all audits relating to  
accounting periods beginning on or after April 1, 2017)*

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### Introduction

#### Scope of this SA

1. This Standard on Auditing (SA) deals with additional communication in the auditor's report when the auditor considers it necessary to:

- (a) Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or
- (b) Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

2. SA 701<sup>1</sup> establishes requirements and provides guidance when the auditor determines key audit matters and communicates them in the auditor's report. When the auditor includes a Key Audit Matters section in the auditor's report, this SA addresses the relationship between key audit matters and any additional communication in the auditor's report in accordance with this SA. (Ref: Para. A1–A3)

3. SA 570 (Revised)<sup>2</sup> establishes requirements and provides guidance about communication in the auditor's report relating to going concern.

4. Appendices 1 and 2 identify SAs that contain specific requirements for the auditor to include Emphasis of Matter paragraphs or Other Matter paragraphs in the auditor's report. In those circumstances, the requirements in this SA regarding the form of such paragraphs apply. (Ref: Para. A4)

#### Effective Date

5. This SA is effective for audits of financial statements for periods beginning on or after April 1, 2017.

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<sup>1</sup> SA 701, Communicating Key Audit Matters in the Independent Auditor's Report

<sup>2</sup> SA 570 (Revised), Going Concern

**Objective**

7. The objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to:

- (a) A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements; or
- (b) As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

**Definitions**

7. For purposes of the SAs, the following terms have the meanings attributed below:

- (a) **Emphasis of Matter paragraph** – A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.
- (b) **Other Matter paragraph** – A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

**Requirements**

**Emphasis of Matter Paragraphs in the Auditor's Report**

8. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided: (Ref: Para. A5–A6)

- (a) The auditor would not be required to modify the opinion in accordance with SA 705 (Revised)<sup>3</sup> as a result of the matter; and
- (b) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. (Ref: Para. A1–A3)

9. When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:

- (a) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter";
- (b) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and

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<sup>3</sup> SA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report

## **I.650 Auditing Pronouncements**

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- (c) Indicate that the auditor's opinion is not modified in respect of the matter emphasized. (Ref: Para. A7–A8, A16–A17)

### **Other Matter Paragraphs in the Auditor's Report**

10. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an Other Matter paragraph in the auditor's report, provided:

- (a) This is not prohibited by law or regulation; and  
(b) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. (Ref: Para. A9–A14)

11. When the auditor includes an Other Matter paragraph in the auditor's report, the auditor shall include the paragraph within a separate section with the heading "Other Matter," or other appropriate heading. (Ref: Para. A15–A17)

### **Communication with Those Charged with Governance**

12. If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, the auditor shall communicate with those charged with governance regarding this expectation and the wording of this paragraph. (Ref: Para. A18)

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## **Application and Other Explanatory Material**

### **The Relationship between Emphasis of Matter Paragraphs and Key Audit Matters in the Auditor's Report** (Ref: Para. 2, 8(b))

A1. Key audit matters are defined in SA 701 as those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance, which include significant findings from the audit of the financial statements of the current period.<sup>4</sup> Communicating key audit matters provides additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit and may also assist them in understanding the entity and areas of significant management judgment in the audited financial statements. When SA 701 applies, the use of Emphasis of Matter paragraphs is not a substitute for a description of individual key audit matters.

A2. Matters that are determined to be key audit matters in accordance with SA 701 may also be, in the auditor's judgment, fundamental to users' understanding of the financial statements. In such cases, in communicating the matter as a key audit matter in accordance with SA 701, the auditor may wish to highlight or draw further attention to its relative importance. The auditor may do so by presenting the matter more prominently than other

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<sup>4</sup>SA 260 (Revised), Communication with Those Charged with Governance, paragraph 16.

matters in the Key Audit Matters section (e.g., as the first matter) or by including additional information in the description of the key audit matter to indicate the importance of the matter to users' understanding of the financial statements.

A3. There may be a matter that is not determined to be a key audit matter in accordance with SA 701 (i.e., because it did not require significant auditor attention), but which, in the auditor's judgment, is fundamental to users' understanding of the financial statements (e.g., a subsequent event). If the auditor considers it necessary to draw users' attention to such a matter, the matter is included in an Emphasis of Matter paragraph in the auditor's report in accordance with this SA.

**Circumstances in Which an Emphasis of Matter Paragraph May Be Necessary** (Ref: Para. 4, 8)

A4. Appendix 1 identifies SAs that contain specific requirements for the auditor to include Emphasis of Matter paragraphs in the auditor's report in certain circumstances. These circumstances include:

- When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.
- To alert users that the financial statements are prepared in accordance with a special purpose framework.
- When facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report (i.e., subsequent events).<sup>5</sup>

A5. Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are:

- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.<sup>6</sup>
- Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

A6. However, a widespread use of Emphasis of Matter paragraphs may diminish the effectiveness of the auditor's communication about such matters.

**Including an Emphasis of Matter Paragraph in the Auditor's Report** (Ref: Para. 9)

A7. The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion. An Emphasis of Matter paragraph is not a substitute for:

- (a) A modified opinion in accordance with SA 705 (Revised) when required by the circumstances of a specific audit engagement;

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<sup>5</sup> SA 560, Subsequent Events, paragraphs 12(b) and 16

<sup>6</sup> SA 560, paragraph 6

## **I.652 Auditing Pronouncements**

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- (b) Disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; or
- (c) Reporting in accordance with SA 570 (Revised)<sup>7</sup> when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.

A8. Paragraphs A16–A17 provide further guidance on the placement of Emphasis of Matter paragraphs in particular circumstances.

### **Other Matter Paragraphs in the Auditor's Report** (Ref: Para. 10–11)

#### *Circumstances in Which an Other Matter Paragraph May Be Necessary*

##### Relevant to Users' Understanding of the Audit

A9. SA 260 (Revised) requires the auditor to communicate with those charged with governance about the planned scope and timing of the audit, which includes communication about the significant risks identified by the auditor.<sup>8</sup> Although matters relating to significant risks may be determined to be key audit matters, other planning and scoping matters (e.g., the planned scope of the audit, or the application of materiality in the context of the audit) are unlikely to be key audit matters because of how key audit matters are defined in SA 701. However, law or regulation may require the auditor to communicate about planning and scoping matters in the auditor's report, or the auditor may consider it necessary to communicate about such matters in an Other Matter paragraph.

A10. In the rare circumstance where the auditor is unable to withdraw from an engagement even though the possible effect of an inability to obtain sufficient appropriate audit evidence due to a limitation on the scope of the audit imposed by management is pervasive,<sup>9</sup> the auditor may consider it necessary to include an Other Matter paragraph in the auditor's report to explain why it is not possible for the auditor to withdraw from the engagement.

##### Relevant to Users' Understanding of the Auditor's Responsibilities or the Auditor's Report

A11. Law, regulation or generally accepted practice may require or permit the auditor to elaborate on matters that provide further explanation of the auditor's responsibilities in the audit of the financial statements or of the auditor's report thereon. When the Other Matter section includes more than one matter that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, it may be helpful to use different sub-headings for each matter.

A12. An Other Matter paragraph does not deal with circumstances where the auditor has other reporting responsibilities that are in addition to the auditor's responsibility under the

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<sup>7</sup> SA 570 (Revised), paragraphs 22–23

<sup>8</sup> SA 260 (Revised), paragraph 15

<sup>9</sup> See paragraph 13(b)(ii) of SA 705 (Revised) for a discussion of this circumstance.

SAs (see Other Reporting Responsibilities section in SA 700 (Revised)<sup>10</sup>), or where the auditor has been asked to perform and report on additional specified procedures, or to express an opinion on specific matters.

Reporting on more than one set of financial statements

A13. An entity may prepare one set of financial statements in accordance with a general purpose framework (e.g., the national framework) and another set of financial statements in accordance with another general purpose framework (e.g., International Financial Reporting Standards), and engage the auditor to report on both sets of financial statements. If the auditor has determined that the frameworks are acceptable in the respective circumstances, the auditor may include an Other Matter paragraph in the auditor's report, referring to the fact that another set of financial statements has been prepared by the same entity in accordance with another general purpose framework and that the auditor has issued a report on those financial statements.

Restriction on distribution or use of the auditor's report

A14. Financial statements prepared for a specific purpose may be prepared in accordance with a general purpose framework because the intended users have determined that such general purpose financial statements meet their financial information needs. Since the auditor's report is intended for specific users, the auditor may consider it necessary in the circumstances to include an Other Matter paragraph, stating that the auditor's report is intended solely for the intended users, and should not be distributed to or used by other parties.

*Including an Other Matter Paragraph in the Auditor's Report*

A15. The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial statements. An Other Matter paragraph does not include information that the auditor is prohibited from providing by law, regulation or other professional standards, for example, ethical standards relating to confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management.

**Placement of Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Auditor's Report** (Ref: Para. 9, 11)

A16. The placement of an Emphasis of Matter paragraph or Other Matter paragraph in the auditor's report depends on the nature of the information to be communicated, and the auditor's judgment as to the relative significance of such information to intended users compared to other elements required to be reported in accordance with SA 700 (Revised). For example:

*Emphasis of Matter Paragraphs*

- When the Emphasis of Matter paragraph relates to the applicable financial reporting framework, including circumstances where the auditor determines that the financial

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<sup>10</sup> SA 700 (Revised), Forming an Opinion and Reporting on Financial Statements, paragraphs 42–44.

## **I.654 Auditing Pronouncements**

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reporting framework prescribed by law or regulation would otherwise be unacceptable,<sup>11</sup> the auditor may consider it necessary to place the paragraph immediately following the Basis of Opinion section to provide appropriate context to the auditor's opinion.

- When a Key Audit Matters section is presented in the auditor's report, an Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matters section, based on the auditor's judgment as to the relative significance of the information included in the Emphasis of Matter paragraph. The auditor may also add further context to the heading "Emphasis of Matter", such as "Emphasis of Matter – Subsequent Event", to differentiate the Emphasis of Matter paragraph from the individual matters described in the Key Audit Matters section.

### *Other Matter Paragraphs*

- When a Key Audit Matters section is presented in the auditor's report and an Other Matter paragraph is also considered necessary, the auditor may add further context to the heading "Other Matter", such as "Other Matter – Scope of the Audit", to differentiate the Other Matter paragraph from the individual matters described in the Key Audit Matters section.
- When an Other Matter paragraph is included to draw users' attention to a matter relating to Other Reporting Responsibilities addressed in the auditor's report, the paragraph may be included in the Report on Other Legal and Regulatory Requirements section.
- When relevant to all the auditor's responsibilities or users' understanding of the auditor's report, the Other Matter paragraph may be included as a separate section following the Report on the Audit of the Financial Statements and the Report on Other Legal and Regulatory Requirements.

A17. Appendix 3 is an illustration of the interaction between the Key Audit Matters section, an Emphasis of Matter paragraph and an Other Matter paragraph when all are presented in the auditor's report. The illustrative report in Appendix 4 includes an Emphasis of Matter paragraph in an auditor's report for an entity other than a listed entity that contains a qualified opinion and for which key audit matters have not been communicated.

### **Communication with Those Charged with Governance** (Ref. Para. 12)

A18. The communication required by paragraph 12 enables those charged with governance to be made aware of the nature of any specific matters that the auditor intends to highlight in the auditor's report, and provides them with an opportunity to obtain further clarification from the auditor where necessary. Where the inclusion of an Other Matter paragraph on a particular matter in the auditor's report recurs on each successive engagement, the auditor may determine that it is unnecessary to repeat the communication on each engagement, unless otherwise required to do so by law or regulation.

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<sup>11</sup> For example, as required by SA 210, Agreeing the Terms of Audit Engagements, paragraph 19 and SA 800, Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks, paragraph 14

## **Appendix 1**

(Ref: Para. 4, A4)

### **List of SAs Containing Requirements for Emphasis of Matter Paragraphs**

This appendix identifies paragraphs in other SAs that require the auditor to include an Emphasis of Matter paragraph in the auditor's report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in SAs.

- SA 210, *Agreeing the Terms of Audit Engagements* – paragraph 19(b)
- SA 560, *Subsequent Events* – paragraphs 12(b) and 16
- SA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* – paragraph 14

## **Appendix 2**

(Ref: Para. 4)

### **List of SAs Containing Requirements for Other Matter Paragraphs**

This appendix identifies paragraphs in other SAs that require the auditor to include an Other Matter paragraph in the auditor's report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in SAs.

- SA 560, *Subsequent Events* – paragraphs 12(b) and 16
- SA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements* – paragraphs 13–14, 16–17 and 19
- SA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements* – paragraph 10(a)

## **Appendix 3**

(Ref: Para. A17)

### **Illustration of an Auditor's Report that Includes a Key Audit Matters Section, an Emphasis of Matter Paragraph, and an Other Matter Paragraph**

*For purposes of this illustrative auditor's report, the following circumstances are assumed:*

- *Audit of a complete set of financial statements of a listed company (registered under the companies Act, 2013) using a fair presentation framework.*
- *The financial statements are prepared by management of the entity in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013 (a general purpose framework).*
- *The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SA 210.*

## I.656 Auditing Pronouncements

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- *The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.*
- *The relevant ethical requirements that apply to the audit are those of the ICAI's Code of Ethics and the provisions of the Companies Act, 2013.*
- *Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570 (Revised).*
- *Between the date of the financial statements and the date of the auditor's report, there was a fire in the entity's production facilities, which was disclosed by the entity as a subsequent event. In the auditor's judgment, the matter is of such importance that it is fundamental to users' understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.*
- *Key audit matters have been communicated in accordance with SA 701.*
- *Corresponding figures are presented, and the prior period's financial statements were audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and has decided to do so.*
- *Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.*
- *In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.*

### INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

#### Report on the Audit of the Standalone Financial Statements<sup>12</sup>

##### Opinion

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at March 31, 20X1, and the statement of Profit & Loss, (statement of changes in equity) and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information (in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at *(location of branches)*)<sup>13</sup>.

In our opinion, and to the best of our information and according to the explanations given to us the aforesaid financial statements, *give a true and fair view*, in conformity with the

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<sup>12</sup> The sub-title "Report on the Audit of the Standalone Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>13</sup> As may be applicable

accounting principles generally accepted in India, of the state of affairs of the Company as at March 31<sup>st</sup>, 2XXX and profit/loss, (*changes in equity*) and its cash flows for the year ended on that date.

### **Basis for Opinion**

We conducted our audit in accordance with Standards on Auditing (SAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements as per the *ICAI's Code of Ethics and the provisions of the Companies Act, 2013*, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter<sup>14</sup>**

We draw attention to Note X of the financial statements, which describes the effects of a fire in the Company's production facilities. Our opinion is not modified in respect of this matter.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*[Description of each key audit matter in accordance with SA 701.]*

### **Other Matter**

The financial statements of ABC Company for the year ended March 31, 20X0, were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 20X1.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

*[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]*

### **Auditor's Responsibilities for the Audit of the Financial Statements**

*[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]*

### **Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]*

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<sup>14</sup> As noted in paragraph A16, an Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matters section based on the auditor's judgment as to the relative significance of the information included in the Emphasis of Matter paragraph.

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For XYZ & Co  
Chartered Accountants  
(Firm's Registration No.)

Signature  
(Name of the Member signing the Audit Report)  
(Designation<sup>15</sup>)  
(Membership No. XXXXX)

Place of Signature:

Date:

### Appendix 4

(Ref: Para. A8)

#### **Illustration of an Auditor's Report Containing a Qualified Opinion Due to a Departure from the Applicable Financial Reporting Framework and that Includes an Emphasis of Matter Paragraph**

*For purposes of this illustrative auditor's report, the following circumstances are assumed:*

- *Audit of a complete set of financial statements of an company other than a listed company (registered under the Companies Act, 2013) using a fair presentation framework..*
- *The financial statements are prepared by management of the entity in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013 (a general purpose framework).*
- *The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SA 210.*
- *A departure from the applicable financial reporting framework resulted in a qualified opinion.*
- *The relevant ethical requirements that apply to the audit are the ICAI's Code of Ethics and the provisions of the Companies Act, 2013.*
- *Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570 (Revised).*
- *Between the date of the financial statements and the date of the auditor's report, there was a fire in the entity's production facilities, which was disclosed by the entity as a subsequent event. In the auditor's judgment, the matter is of such importance that it is fundamental to users' understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.*

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<sup>15</sup> Partner or Proprietor, as the case may be

- *The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SA 701.*
- *Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.*
- *In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.*

### **INDEPENDENT AUDITOR'S REPORT**

To the Members of ABC Company Limited

#### **Report on the Audit of the Standalone Financial Statements**<sup>16</sup>

##### **Qualified Opinion**

We have audited the standalone financial statements of ABC Limited ("the Company"), which comprise the balance sheet as at March 31, 20X1, and the statement of Profit and Loss, (statement of changes in equity) and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information (in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at *(location of branches)*).

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the aforesaid financial statements present fairly, in all material respects, or *give a true and fair view* in conformity with the accounting principles generally accepted in India of the state of affairs of the Company as at March 31<sup>st</sup>, 2XXX and profit/loss, *(changes in equity)* and its cash flows for the year ended on that date.

##### **Basis for Qualified Opinion**

The Company's short-term marketable securities are carried in the statement of financial position at xxx. Management has not marked these securities to market but has instead stated them at cost, which constitutes a departure from the Accounting Standards prescribed in section 133 of the Companies Act, 2013. The Company's records indicate that had management marked the marketable securities to market, the Company would have recognized an unrealized loss of Rs.xxx in the statement of comprehensive income for the year. The carrying amount of the securities in the statement of financial position would have been reduced by the same amount at March 31, 20X1, and income tax, net income and shareholders' equity would have been reduced by Rs.xxx, Rs.xxx and Rs.xxx, respectively.

We conducted our audit in accordance with Standards on Auditing (SAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in

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<sup>16</sup> The sub-title "Report on the Audit of the Standalone Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

## **I.660 Auditing Pronouncements**

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accordance with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ICAI's Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### **Emphasis of Matter – Effects of a Fire**

We draw attention to Note X of the financial statements, which describes the effects of a fire in the Company's production facilities. Our opinion is not modified in respect of this matter.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

*[Reporting in accordance with SA 700(Revised)–see Illustration 1 in SA 700(Revised).]*

### **Auditor's Responsibilities for the Audit of the Financial Statements**

*[Reporting in accordance with SA 700(Revised – see Illustration 1 in SA 700(Revised).]*

### **Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]*

For XYZ & Co  
Chartered Accountants  
(Firm's Registration No.)

Signature  
(Name of the Member signing the Audit Report)  
(Designation<sup>17</sup>)  
(Membership No. XXXXX)

Place of Signature:

Date:

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<sup>17</sup> Partner or Proprietor, as the case may be

**SA 710\***

**Comparative Information—Corresponding  
Figures and Comparative  
Financial Statements**  
*(Effective for all audits relating to  
accounting periods beginning on or after April 1, 2011)*

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## Introduction

### Scope of this SA

1. This Standard on Auditing (SA) deals with the auditor's responsibilities regarding comparative information in an audit of financial statements. When the financial statements of the prior period have been audited by a predecessor auditor or were not audited, the requirements and guidance in SA 510<sup>1</sup> regarding opening balances also apply.

### *The Nature of Comparative Information*

2. The nature of the comparative information that is presented in an entity's financial statements depends on the requirements of the applicable financial reporting framework. There are two different broad approaches to the auditor's reporting responsibilities in respect of such comparative information: corresponding figures<sup>2</sup> and comparative financial statements. The approach to be adopted is often specified by law or regulation but may also be specified in the terms of engagement.

3. The essential audit reporting differences between the approaches are:

- (a) For corresponding figures, the auditor's opinion on the financial statements refers to the current period only; whereas
- (b) For comparative financial statements, the auditor's opinion refers to each period for which financial statements are presented.

This SA addresses separately the auditor's reporting requirements for each approach.

### Effective Date

4. This SA is effective for audits of financial statements for periods beginning on or after April 1, 2011.

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\* Published in the April, 2010 issue of the Journal.

<sup>1</sup> SA 510, "Initial Audit Engagements—Opening Balances".

<sup>2</sup> Typically, financial reporting frameworks in India use the corresponding figures approach for general purpose financial statements.

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### **Objectives**

5. The objectives of the auditor are:
- (a) To obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable financial reporting framework; and
  - (b) To report in accordance with the auditor's reporting responsibilities.

### **Definitions**

6. For purposes of the SAs, the following terms have the meanings attributed below:
- (a) Comparative information – The amounts and disclosures included in the financial statements in respect of one or more prior periods in accordance with the applicable financial reporting framework.
  - (b) Corresponding figures – Comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial statements, and are intended to be read only in relation to the amounts and other disclosures relating to the current period (referred to as "current period figures"). The level of detail presented in the corresponding amounts and disclosures is dictated primarily by its relevance to the current period figures.
  - (c) Comparative financial statements – Comparative information where amounts and other disclosures for the prior period are included for comparison with the financial statements of the current period but, if audited, are referred to in the auditor's opinion. The level of information included in those comparative financial statements is comparable with that of the financial statements of the current period.

For purposes of this SA, references to "prior period" should be read as "prior periods" when the comparative information includes amounts and disclosures for more than one period.

### **Requirements**

#### **Audit Procedures**

7. The auditor shall determine whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified. For this purpose, the auditor shall evaluate whether:
- (a) The comparative information agrees with the amounts and other disclosures presented in the prior period; and
  - (b) The accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.
8. If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, the auditor shall perform such

additional audit procedures as are necessary in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists. If the auditor had audited the prior period's financial statements, the auditor shall also follow the relevant requirements of SA 560<sup>3</sup>.

9. As required by SA 580<sup>4</sup>, the auditor shall request written representations for all periods referred to in the auditor's opinion. The auditor shall also obtain a specific written representation regarding any prior period item that is separately disclosed in the current year's statement of profit and loss. (Ref: Para. A1)

### **Audit Reporting**

#### ***Corresponding Figures***

10. When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in the circumstances described in paragraphs 11, 12, and 14. (Ref: Para. A2)

11. If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements. In the Basis for Modification paragraph in the auditor's report, the auditor shall either:

- (a) Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; or
- (b) In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures. (Ref: Para. A3-A5)

12. If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued, the auditor shall verify whether the misstatement has been dealt with as required under the applicable financial reporting framework and, if that is not the case, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein. (Ref: Para. A6)

#### ***Prior Period Financial Statements Audited by a Predecessor Auditor***

13. If the financial statements of the prior period were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures and decides to do so, the auditor shall state in an Other Matter paragraph in the auditor's report:

- (a) That the financial statements of the prior period were audited by the predecessor auditor;

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<sup>3</sup> SA 560, "Subsequent Events", paragraphs 14-17.

<sup>4</sup> SA 580, "Written Representations", paragraph 14.

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- (b) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
- (c) The date of that report. (Ref: Para. A7)

### *Prior Period Financial Statements Not Audited*

14. If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph in the auditor's report that the corresponding figures are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements<sup>5</sup>. (Ref: Para. A7a)

### **Comparative Financial Statements**

15. When comparative financial statements are presented, the auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed. (Ref: Para. A8-A9)

16. When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with SA 706<sup>6</sup>. (Ref: Para. A10)

### *Prior Period Financial Statements Audited by a Predecessor Auditor*

17. If the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's financial statements, the auditor shall state in an Other Matter paragraph:

- (a) That the financial statements of the prior period were audited by a predecessor auditor;
- (b) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefor; and
- (c) The date of that report,

unless the predecessor auditor's report on the prior period's financial statements is revised with the financial statements.

18. If the auditor concludes that a material misstatement exists that affects the prior period financial statements on which the predecessor auditor had previously reported without modification, the auditor shall communicate the misstatement with the appropriate level of management and those charged with governance and request that the predecessor auditor be informed. If the prior period financial statements are amended, and the predecessor auditor agrees to issue a new auditor's report on the amended financial statements of the prior period, the auditor shall report only on the current period. (Ref: Para. A11)

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<sup>5</sup> SA 510, paragraph 6.

<sup>6</sup> SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report", paragraph 8.

*Prior Period Financial Statements Not Audited*

19. If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph that the comparative financial statements are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements<sup>7</sup>.

**Application and Other Explanatory Material**

**Audit Procedures**

***Written Representations*** (Ref: Para. 9)

A1. In the case of comparative financial statements, the written representations are requested for all periods referred to in the auditor's opinion because management needs to re-affirm that the written representations it previously made with respect to the prior period remain appropriate. In the case of corresponding figures, the written representations are requested for the financial statements of the current period only because the auditor's opinion is on those financial statements, which include the corresponding figures. However, the auditor requests a specific written representation regarding any prior period item that is separately disclosed in the current year's statement of profit and loss.

**Audit Reporting**

***Corresponding Figures***

*No Reference in Auditor's Opinion* (Ref: Para.10)

A2. The auditor's opinion does not refer to the corresponding figures because the auditor's opinion is on the current period financial statements as a whole, including the corresponding figures.

*Modification in Auditor's Report on the Prior Period Unresolved* (Ref: Para. 11)

A3. When the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modified opinion is resolved and properly accounted for or disclosed in the financial statements in accordance with the applicable financial reporting framework, the auditor's opinion on the current period need not refer to the previous modification.

A4. When the auditor's opinion on the prior period, as previously expressed, was modified, the unresolved matter that gave rise to the modification may not be relevant to the current period figures. Nevertheless, a qualified opinion, a disclaimer of opinion, or an adverse opinion (as applicable) may be required on the current period's financial statements because of the effects or possible effects of the unresolved matter on the comparability of the current and corresponding figures.

A5. Illustrative examples of the auditor's report if the auditor's report on the prior period included a modified opinion and the matter giving rise to the modification is unresolved are

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<sup>7</sup> SA 510, paragraph 6.

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contained in Examples A and B of the Appendix.

*Misstatement in Prior Period Financial Statements* (Ref: Para. 12)

A6. When the prior period financial statements that are misstated have not been amended and an auditor's report thereon has not been issued in accordance with the requirements of SA 560, "Subsequent Events", but the corresponding figures have been properly dealt with as required under the applicable financial reporting framework and the appropriate disclosures have been made in the current period financial statements, the auditor's report may include an Emphasis of Matter paragraph describing the circumstances and referring to, where relevant, disclosures that fully describe the matter that can be found in the financial statements (see SA 706).

*Prior Period Financial Statements Audited by a Predecessor Auditor* (Ref: Para. 13)

A7. An illustrative example of the auditor's report if the prior period financial statements were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures is contained in Example C of the Appendix.

*Prior Period Financial Statements Not Audited* (Ref: Para.14)

A7a. Where prior period financial statements were not audited, the auditor should request the management to disclose this fact on the face of the current period financial statements with respect to the corresponding figures.

### **Comparative Financial Statements**

*Reference in Auditor's Opinion* (Ref: Para. 15)

A8. Because the auditor's report on comparative financial statements applies to the financial statements for each of the periods presented, the auditor may express a qualified opinion or an adverse opinion, disclaim an opinion, or include an Emphasis of Matter paragraph with respect to one or more periods, while expressing a different auditor's opinion on the financial statements of the other period.

A9. An illustrative example of the auditor's report if the auditor is required to report on both the current and the prior period financial statements in connection with the current year's audit and the prior period included a modified opinion and the matter giving rise to the modification is unresolved, is contained in Example D of the Appendix.

*Opinion on Prior Period Financial Statements Different from Previous Opinion* (Ref: Para. 16)

A10. When reporting on the prior period financial statements in connection with the current period's audit, the opinion expressed on the prior period financial statements may be different from the opinion previously expressed if the auditor becomes aware of circumstances or events that materially affect the financial statements of a prior period during the course of the audit of the current period. In some circumstances, the auditor may have additional reporting responsibilities designed to prevent future reliance on the auditor's previously issued report on the prior period financial statements.

*Prior Period Financial Statements Audited by a Predecessor Auditor* (Ref: Para. 18)

A11. The predecessor auditor may be unable or unwilling to revise the auditor's report on the prior period financial statements. An Other Matter paragraph of the auditor's report may indicate that the predecessor auditor reported on the financial statements of the prior period before amendment. In addition, if the auditor is engaged to audit and obtains sufficient appropriate audit evidence to be satisfied as to the appropriateness of the amendment, the auditor's report may also include the following paragraph:

As part of our audit of the 20X2 financial statements, we also audited the adjustments described in Note X that were applied to amend the 20X1 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 20X1 financial statements of the company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 20X1 financial statements taken as a whole.

### **Material Modifications vis-a-vis ISA 710, "Comparative Information—Corresponding Figures and Comparative Financial Statements"**

#### **Deletions**

1. Paragraphs 9 and 12 of ISA 710 deal with the restatement of the prior period financial statements. Since in India, Accounting Standard (AS) 5, "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" requires that prior period items should be separately disclosed in the Statement of Profit and Loss in a manner that their impact on the current profit or loss can be perceived, the restatement of the prior period financial statements does not exist in the Indian scenario. Hence, to align with the requirements of AS 5, the requirement of restatement of prior period items has been replaced with the requirement to disclose the prior period items in the current year's Statement of Profit & Loss. Corresponding changes have also been made at the relevant places of the Standard.

2. Paragraph 17 of ISA 710 deals with the situation wherein the predecessor auditor reissue his audit report. Since in India, the nomenclature, "Reissue" is not used for the re-issuance of the audit report by an auditor, the same has been replaced with the word, "Revised". Corresponding changes have also been made at the relevant places of the Standard.

## **Appendix**

### **Example Auditors' Reports**

#### **Example A - Corresponding Figures** (Ref: Para. A5)

Report illustrative of the circumstances described in paragraph 11(a), as follows:

- The auditor's report on the prior period, as previously issued, included a qualified opinion.
- The matter giving rise to the modification is unresolved.
- The effects or possible effects of the matter on the current period's figures are material and require a modification to the auditor's opinion regarding the current period figures.

### INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

#### **Report on the Financial Statements**<sup>8</sup>

We have audited the accompanying financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at March 31, 20X1, and the statement of profit and loss, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and presentation of these financial statements that give a true and fair view of the state of affairs, results of operations and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India (ICAI). Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control<sup>9</sup>. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

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<sup>8</sup> The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>9</sup> The underlined text has been added pursuant to decision of Council of ICAI taken at its 329th adjourned meeting held in January 2014. The complete text of the Announcement in this regard has been published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.

***Basis for Qualified Opinion***

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements which constitutes a departure from the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). This is the result of a decision taken by management at the start of the preceding financial year and caused us to qualify our audit opinion on the financial statements relating to that year. Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by `XXX in 20X1 and `XXX in 20X0, property, plant and equipment should be reduced by accumulated depreciation of `XXX in 20X1 and `XXX in 20X0, and the accumulated loss should be increased by `XXX in 20X1 and Rs.XXX in 20X0.

***Qualified Opinion***

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the state of affairs of the Company as of March 31, 20X1, and of its results of operations and its cash flows for the year then ended in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act").

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>10</sup>)  
Membership Number

Place of Signature

Date

**Example B - Corresponding Figures** (Ref: Para. A5)

**Report illustrative of the circumstances described in paragraph 11(b), as follows:**

- **The auditor's report on the prior period, as previously issued, included a qualified opinion.**
- **The matter giving rise to the modification is unresolved.**
- **The effects or possible effects of the matter on the current period's figures are immaterial but require a modification to the auditor's opinion because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.**

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<sup>10</sup> Partner or Proprietor, as the case may be.

## **I.670 Auditing Pronouncements**

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### **INDEPENDENT AUDITOR'S REPORT**

To the Members of ABC Company Limited

#### **Report on the Financial Statements**<sup>11</sup>

We have audited the accompanying financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at March 31, 20X1, and the statement of profit and loss, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and presentation of these financial statements that give a true and fair view of the state of affairs, results of operations and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India (ICAI). Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control<sup>12</sup>. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

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<sup>11</sup> The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>12</sup> The underlined text has been added pursuant to decision of Council of ICAI taken at its 329th adjourned meeting held in January 2014. The complete text of the Announcement in this regard has been published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.

***Basis for Qualified Opinion***

Because we were appointed auditors of the Company during 20X0, we were not able to observe the counting of the physical inventories at the beginning of that period or satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories affect the determination of the results of operations, we were unable to determine whether adjustments to the results of operations and opening retained earnings might be necessary for 20X0. Our audit opinion on the financial statements for the year ended 31 March, 20X0 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

***Qualified Opinion***

In our opinion, except for the possible effects on the corresponding figures of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the state of affairs of the Company as of March 31, 20X1, and of its results of operations and its cash flows for the year then ended in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act").

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number  
  
Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>13</sup>)  
Membership Number

Place of Signature

Date

**Example C - Corresponding Figures** (Ref: Para. A7)

**Report illustrative of the circumstances described in paragraph 13, as follows**

- **The prior period's financial statements were audited by a predecessor auditor.**
- **The auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures and decides to do so.**

**INDEPENDENT AUDITOR'S REPORT**

To the Members of ABC Company Limited

**Report on the Financial Statements**<sup>14</sup>

We have audited the accompanying financial statements of ABC Company Ltd. ("the

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<sup>13</sup> Partner or Proprietor, as the case may be.

<sup>14</sup> The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

## **I.672 Auditing Pronouncements**

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Company”), which comprise the balance sheet as at March 31, 20X1, and the statement of profit and loss, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### ***Management’s Responsibility for the Financial Statements***

Management is responsible for the preparation and presentation of these financial statements that give a true and fair view of the state of affairs, results of operations and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 (“the Act”). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor’s Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India (ICAI). Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control<sup>15</sup>. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as of March 31, 20X1, and of its results of operations and its cash flows for the year then ended in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 (“the Act”).

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<sup>15</sup> The underlined text has been added pursuant to decision of Council of ICAI taken at its 329th adjourned meeting held in January 2014. The complete text of the Announcement in this regard has been published in Paragraph ‘C’, “Announcements/Clarifications” of Section 1, “Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India”, included in Volume I.A of the Handbook.

**Other Matters**

The financial statements of the Company for the year ended March 31, 20X1, were audited by another auditor who expressed an unmodified opinion on those statements on June 30, 20X1.

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>16</sup>)  
Membership Number

Place of Signature

Date

**Example D - Comparative Financial Statements** (Ref: Para. A9)

**Report illustrative of the circumstances described in paragraph 15, as follows:**

- **Auditor is required to report on both the current period financial statements and the prior period financial statements in connection with the current year's audit.**
- **The financial reporting framework used in preparing the financial statements is other than accounting principals generally accepted in India. However, the audit is performed in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India.**
- **The auditor's report on the prior period, as previously issued, included a qualified opinion.**
- **The matter giving rise to the modification is unresolved.**
- **The effects or possible effects of the matter on the current period's figures are material to both the current period financial statements and prior period financial statements and require a modification to the auditor's opinion.**

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

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<sup>16</sup> Partner or Proprietor, as the case may be.

## **I.674 Auditing Pronouncements**

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### **Report on the Financial Statements<sup>17</sup>**

We have audited the accompanying financial statements of ABC Company Ltd. ("the Company"), which comprise the balance sheets as at March 31, 20X1 and 20X0, and the statements of profit & loss, and cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory information.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and presentation of these financial statements that give a true and fair view of the state of affairs, results of operations and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India (ICAI). Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control<sup>18</sup>. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our qualified audit opinion.

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<sup>17</sup> The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>18</sup> The underlined text has been added pursuant to decision of Council of ICAI taken at its 329th adjourned meeting held in January 2014. The complete text of the Announcement in this regard has been published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.

***Basis for Qualified Opinion***

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements which constitutes a departure from the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by Rs.XXX in 20X1 and Rs.XXX in 20X0, property, plant and equipment should be reduced by accumulated depreciation of Rs.XXX in 20X1 and Rs.XXX in 20X0, and the accumulated loss should be increased by Rs.XXX in 20X1 and Rs.XXX in 20X0.

***Qualified Opinion***

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the state of affairs of the Company as of March 31, 20X1 and 20X0 and of its results of operations and its cash flows for the years then ended in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act").

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>19</sup>)  
Membership Number

Place of Signature

Date

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<sup>19</sup> Partner or Proprietor, as the case may be.

## SA 720\*

# The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements

*(Effective for audits of financial statements for periods beginning on or after April 1, 2010)*

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### Introduction

#### Scope of this SA

1. This Standard on Auditing (SA) deals with the auditor's responsibility in relation to other information in documents containing audited financial statements and the auditor's report thereon. In the absence of any separate requirement in the particular circumstances of the engagement, the auditor's opinion does not cover other information and the auditor has no specific responsibility for determining whether or not other information is properly stated. However, the auditor reads the other information because the credibility of the audited financial statements may be undermined by material inconsistencies between the audited financial statements and other information. (Ref: Para. A1)

2. In this SA "documents containing audited financial statements" refers to annual reports (or similar documents), that are issued to owners (or similar stakeholders), containing audited financial statements and the auditor's report thereon. This SA may also be applied, adapted as necessary in the circumstances, to other documents containing audited financial statements. (Ref: Para. A2-A4)

#### Effective Date

3. This SA is effective for audits of financial statements for periods beginning on or after April 1, 2010.

#### Objective

4. The objective of the auditor is to respond appropriately when documents containing audited financial statements and the auditor's report thereon include other information that could undermine the credibility of those financial statements and the auditor's report.

#### Definitions

5. For purposes of the SAs the following terms have the meanings attributed below:

(a) Other information – Financial and non-financial information (other than the financial

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\* Published in April, 2009 issue of the Journal.

statements and the auditor's report thereon) which is included, either by law, regulation or custom, in a document containing audited financial statements and the auditor's report thereon.

- (b) Inconsistency – Other information that contradicts information contained in the audited financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial statements.
- (c) Misstatement of fact – Other information that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing audited financial statements.

### **Requirements**

#### **Reading Other Information**

6. The auditor shall read the other information to identify material inconsistencies, if any, with the audited financial statements.

7. The auditor shall make appropriate arrangements with management or those charged with governance to obtain the other information prior to the date of the auditor's report. If it is not possible to obtain all the other information prior to the date of the auditor's report, the auditor shall read such other information as soon as practicable. (*Ref: Para. A5*)

#### **Material Inconsistencies**

8. If, on reading the other information, the auditor identifies a material inconsistency, the auditor shall determine whether the audited financial statements or the other information needs to be revised.

#### ***Material Inconsistencies Identified in Other Information Obtained Prior to the Date of the Auditor's Report***

9. When revision of the audited financial statements is necessary and management refuses to make the revision, the auditor shall modify the opinion in accordance with SA 705.<sup>1</sup>

10. When revision of the other information is necessary and management refuses to make the revision, the auditor shall communicate this matter to those charged with governance; and

- (a) Include in the auditor's report an Other Matter(s) paragraph describing the material inconsistency in accordance with SA 706<sup>2</sup>; or
- (b) Where withdrawal is legally permitted, withdraw from the engagement. (*Ref: Para. A6-A7*)

#### ***Material Inconsistencies Identified in Other Information Obtained Subsequent to the***

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<sup>1</sup> SA 705, "Modifications to the opinion in the Independent Auditor's Report".

<sup>2</sup> SA 706, "Emphasis of Matter paragraphs and Other Matter Paragraphs in the Independent Auditor's Report", paragraph 8.

## **I.678 Auditing Pronouncements**

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### ***Date of the Auditor's Report***

11. When revision of the audited financial statements is necessary, the auditor shall follow the relevant requirements in SA 560.<sup>3</sup>

12. When revision of the other information is necessary and management agrees to make the revision, the auditor shall carry out the procedures necessary under the circumstances. (Ref: Para. A8)

13. When revision of the other information is necessary, but management refuses to make the revision, the auditor shall notify those charged with governance of the auditor's concern regarding the other information and take any further appropriate action. (Ref: Para. A9)

### **Material Misstatements of Fact**

14. If, on reading the other information for the purpose of identifying material inconsistencies, the auditor becomes aware of an apparent material misstatement of fact, the auditor shall discuss the matter with management. (Ref: Para. A10)

15. When, following such discussions, the auditor still considers that there is an apparent material misstatement of fact, the auditor shall request management to consult with a qualified third party, such as the entity's legal counsel, and the auditor shall consider the advice received.

16. When the auditor concludes that there is a material misstatement of fact in the other information which management refuses to correct, the auditor shall notify those charged with governance of the auditor's concern regarding the other information and take any further appropriate action. (Ref: Para. A11)

### **Application and Other Explanatory Material**

#### **Scope of this SA** (Ref: Para. 1-2)

A1. The auditor may have additional responsibilities, through statutory or other regulatory requirements, in relation to other information that are beyond the scope of this SA. For example, certain statutory and regulatory requirements may require the auditor to apply specific procedures to certain of the other information such as required supplementary data or to express an opinion on the reliability of performance indicators described in the other information. When there are such obligations, the auditor's additional responsibilities are determined by the nature of the engagement and by law, regulation and professional standards. If such other information is omitted or contains deficiencies, the auditor may be required by law or regulation to refer to the matter in the auditor's report.

A2. Other information may comprise, for example:

- A report by management or those charged with governance on operations.
- Financial summaries or highlights.
- Planned capital expenditures.

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<sup>3</sup> SA 560, "Subsequent Events", paragraphs 10-17.

- Financial ratios.
- Selected quarterly data.

A3. For purposes of the SAs, other information does not encompass, for example:

- A press release or a transmittal memorandum, such as a covering letter, accompanying the document containing audited financial statements and the auditor's report thereon.
- Information contained in analyst briefings.
- Information contained on the entity's web site.

***Considerations Specific to Smaller Entities (Ref: Para. 2)***

A4. Unless required by law or regulation, smaller entities are less likely to issue documents containing audited financial statements. However, an example of such a document would be where a legal requirement exists for an accompanying report by those charged with governance.

**Reading Other Information (Ref: Para. 7)**

A5. Obtaining the other information prior to the date of the auditor's report enables the auditor to resolve possible material inconsistencies and apparent material misstatements of fact with management on a timely basis. An agreement with management as to when the other information will be available may be helpful.

**Material Inconsistencies**

***Material Inconsistencies Identified in Other Information Obtained Prior to the Date of the Auditor's Report (Ref: Para. 10)***

A6. When management refuses to revise the other information, the auditor may base any decision on what further action to take on advice from the auditor's legal counsel.

A7. In case of certain entities such as, Central/State governments and related government entities (for example, agencies, boards, commissions), withdrawal from the engagement may not be an option. In such cases the auditor may issue a report to the appropriate statutory body giving details of the inconsistency.

***Material Inconsistencies Identified in Other Information Obtained Subsequent to the Date of the Auditor's Report (Ref: Para. 12-13)***

A8. When management agrees to revise the other information, the auditor's procedures may include reviewing the steps taken by management to ensure that individuals in receipt of the previously issued financial statements, the auditor's report thereon, and the other information are informed of the revision.

A9. When management refuses to make the revision of such other information that the auditor concludes is necessary, appropriate further actions by the auditor may include obtaining advice from the auditor's legal counsel.

**Material Misstatements of Fact (Ref: Para. 14-16)**

A10. When discussing an apparent material misstatement of fact with management, the auditor may not be able to evaluate the validity of some disclosures included within the other

## **I.680 Auditing Pronouncements**

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information and management's responses to the auditor's inquiries, and may conclude that valid differences of judgment or opinion exist.

A11. When the auditor concludes that there is a material misstatement of fact that management refuses to correct, appropriate further actions by the auditor may include obtaining advice from the auditor's legal counsel.

### **Material Modifications *vis a vis* ISA 720, "The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements"**

#### **Deletions**

1. Paragraph 10 of ISA 720 dealt with the circumstances where the revision of the financial statements is necessary and management refuses to make the revision. In these circumstances, the auditor shall communicate this matter to those charged with governance and include in the auditor's report an Other Matter(s) paragraph describing the material inconsistency in accordance with ISA 706; or withhold the auditor's report; or where withdrawal is legally permitted, withdraw from the engagement. Since in India, the practice of withholding the auditor's report is not in vogue, an option of withholding the auditor's report by the auditor has been deleted. Similarly in paragraph A7 of the Application Section, an option of withholding the auditor's report by the auditor has been deleted.

2. Paragraph A2 of ISA 720 provides the examples of the other information including 'employment data' and 'names of officers and directors'. Reference to these two specific examples has been deleted so that the auditor can focus on more relevant aspects of other information.

3. Paragraph A4 of ISA 720 provides an example of the other information that may be included in a document containing the audited financial statements of a smaller entity are a detailed income statement and a management report..Since, in India, the terminology of "detailed income statement" and a "management report" do not exist; these have been deleted completely from the SA.

4. Paragraph A7 of ISA 720 provides that in case of public sector entities, withdrawal from the engagement or withholding the auditor's report may not be the options. In such cases the auditor may issue a report to the appropriate statutory body giving details of the inconsistency. Since as mentioned in the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services", the Standards issued by the Auditing and Assurance Standards Board, apply equally to all entities, irrespective of their form, nature and size, a specific reference to applicability of the Standard to public sector entities has been deleted.

Further, it is also possible that withdrawal from the engagement may not be an option even in case of non public sector entities pursuant to a requirement under the statute or regulation under which they operate. Paragraph A7 has, accordingly, been made more generic in its application.