



Scope Of The Standard

- ✓ Deals with auditor's responsibility to form an opinion
- ✓ Also deals with form and content of the auditor's report
- ✓ Applies to an audit of a complete set of general purpose financial statements.
- ✓ Also applies to audits for which SA 800 (Special Purpose Financial Statements) or SA 805 (Special considerations of a single financial statement) apply.
- ✓ This SA promotes consistency in the auditor's report, but recognizes the need for flexibility to accommodate particular circumstances of individual jurisdictions.



Effective Date

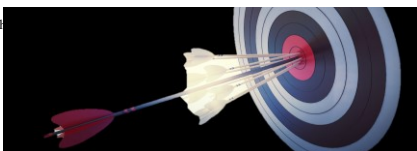
This SA is effective for audits of financial statements for periods beginning on or after April 1, 2018.



Objectives

The objectives of the auditor are:

- To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and
- To express clearly th



Forming an Opinion On Financial Statements

- ✓ Whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework
- ✓ Whether the auditor has obtained reasonable assurance about that financial statements as a whole are free from material misstatement, whether due to fraud or error.
 - in accordance with SA 330, whether sufficient appropriate audit evidence has been obtained
 - in accordance with SA 450, whether uncorrected misstatements are material, individually or in aggregate
- ✓ Whether there are any indicators of possible bias in management's judgments.



Forming an Opinion On Financial Statements

- ✓ Financial statements adequately disclose the significant accounting policies selected and applied;
- ✓ Accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
- ✓ Accounting estimates made by management are reasonable;
- ✓ Information presented in the financial statements is relevant, reliable, comparable, and understandable;
- ✓ Adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements;
- ✓ terminology used in the financial statements, including the title of each financial statement, is appropriate.

Form Of Opinion

Unmodified Opinion

When the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Modified Opinion

When the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement

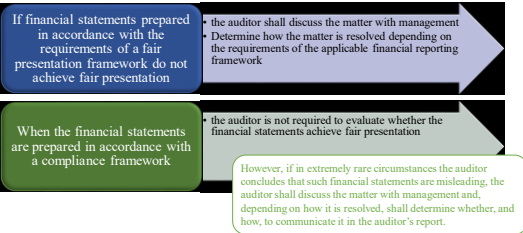
When the Auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement

Considerations for Fair Presentation

- ✓ The overall presentation, structure and content of the financial statements;
- ✓ Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.



Achieving Fair Presentation



Form Of Audit Report



Audit Report Shall be in Writing

Auditor's Report for Audits Conducted in Accordance with Standards on Auditing



Title

The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor.



Addressee

The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement.



Auditor's Opinion

The first section of the auditor's report shall include the auditor's opinion, and shall have the heading "Opinion."

- ✓ Identify the entity whose financial statements have been audited;
- ✓ State that the financial statements have been audited;
- ✓ Identify the title of each statement comprising the financial statements;
- ✓ Refer to the notes, including the summary of significant accounting policies; and
- ✓ Specify the date of, or period covered by, each financial statement comprising the financial statements.



Phrase to use if Unmodified Opinion...

In our opinion, the accompanying financial statements present fairly, in all material respects, [...] in accordance with [the applicable financial reporting framework]

In our opinion, the accompanying financial statements give a true and fair view of [...] in accordance with [the applicable financial reporting framework].

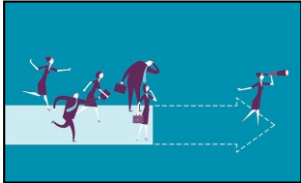
Basis For Opinion

The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that:

- ✓ States that the audit was conducted in accordance with Standards on Auditing
- ✓ Refers to the section of the auditor's report that describes the auditor's responsibilities under the SAS;
- ✓ Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall refer to the *Code of Ethics issued by ICAI*
- ✓ States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Going Concern

Where applicable, the auditor shall report in accordance with SA 570 (Revised)



Key Audit Matters

- For audits of complete sets of general purpose financial statements of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with SA 701.
- When the auditor is otherwise required by law or regulation or decides to communicate key audit matters in the auditor's report, the auditor shall do so in accordance with SA 701.



Responsibilities for the Financial Statements

The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements."

Managements Responsibility for:

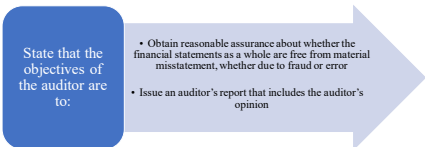
Preparing the financial statements in accordance with the applicable financial reporting framework

Adequate internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

Assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern

Auditor's Responsibilities

The auditor's report shall include a section with the heading 'Auditor's Responsibilities for the Audit of the Financial Statements'

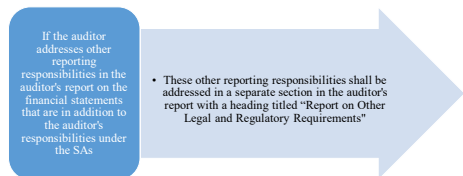


Auditors' Responsibilities

- This Standard Provides for an option of presenting Auditors Responsibility in an Appendix to the auditor's report.
- Also, when law, regulation or applicable auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report.
 - provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities mentioned in the standard.



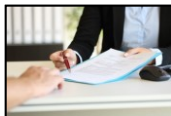
Other Reporting Responsibilities



Signature of the Auditor

- ✓ The auditor's report shall be signed.
- ✓ The report is signed by the auditor (i.e. the engagement partner) in his personal name.
- ✓ Where the firm is appointed as the auditor, the report is signed in the personal name of the auditor and in the name of the audit firm.
- ✓ Needs to mention the membership number assigned by the Institute of Chartered Accountants of India.
- ✓ They also include the registration number of the firm, wherever applicable, as allotted by ICAI, in the audit reports signed by them

Place of Signature The auditor's report shall name specific location, which is ordinarily the city where the audit report is signed.



Date of the Auditor's Report

The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that-

- ✓ All the statements that comprise the financial statements, including the related notes, have been prepared; and
- ✓ Those with the recognized authority have asserted that they have taken responsibility for those financial statements.



Old

"Title" Independent Audit's Report
 "Addressee" To the Members Of ABC Company Limited
 Report On Audit of the Financial Statements
 "Introductory Paragraph"
 We have audited the.....
 "Management's Responsibility for the Financial Statements"
 "Auditor's Responsibility"
 "Auditor's Opinion"
 "Emphasis Of Matters"
 "Other Matters"
 "Report On Other Legal and Regulatory Requirements"
 Signature
 Date of Auditors Report
 Place Of Signature

Revised

"Title" Independent Audit's Report
 "Addressee" To the Members Of ABC Company Limited
 Report On Audit of the Financial Statements
 "Opinion"
 We have audited the.....
 In our Opinion.....
 "Basis For Opinion"
 "Key Audit Matters" (If Applicable)
 "Management's Responsibility for the Financial Statements"
 "Auditor's Responsibility"
 "Emphasis Of Matters"
 "Other Matters"
 "Report On Other Legal and Regulatory Requirements"
 Signature
 Date of Auditors Report
 Place Of Signature

Impact Of the Revision

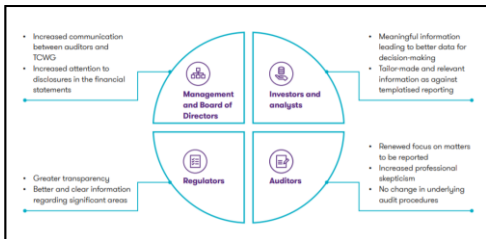


Illustration on the Revised Portion Of Report

Unmodified Opinion

Opinion

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at 31st March 20XX, and the statement of Profit and Loss, (statement of changes in equity), and 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, the aforesaid standalone financial statements give the information required by the Act in the manner so required and 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, 20XX, and profit/loss, (changes in equity) and its cash flows for the year ended on that date.

Illustration on the Revised Portion Of Report

Unmodified Opinion

Basis for Opinion

We conducted our audit in accordance with the 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 the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Illustration on the Revised Portion Of Report

Unmodified Opinion

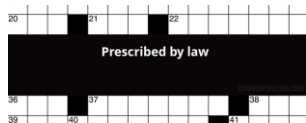
Key Audit Matters

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.

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

Auditor’s Report Prescribed by Law or Regulation

If the auditor is required by law or regulation applicable to the entity to use a specific layout, or wording of the auditor’s report, the auditor’s report shall refer to Standards on Auditing only if the auditor’s report includes at a minimum of the prescribed format.

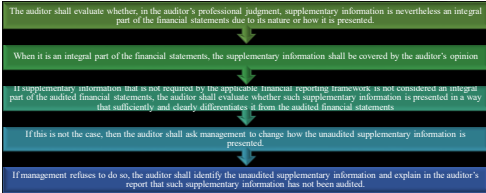


Auditor’s Report for Audits Conducted in Accordance with Both Standards on Auditing Issued by ICAI and International Standards on Auditing or Auditing Standards of Any Other Jurisdiction

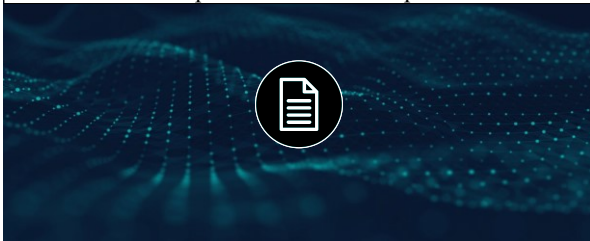
An auditor may be required to conduct an audit in accordance with, in addition to the Standards on Auditing issued by ICAI, the International Standards on Auditing or auditing standards of any other jurisdiction. If this is the case, the auditor’s report may refer to Standards on Auditing in addition to the International Standards on Auditing or auditing standards of such other jurisdiction, but the auditor shall do so only if:

- ✓ There is no conflict between the requirements in the ISAs
- ✓ The auditor’s report includes, at a minimum, each of the elements prescribed under this SA

Supplementary Information Presented with the Financial Statements



SA 705 (Revised)-Modifications to the Opinion in the Independent Auditor's Report



Scope Of The Standard

- ✓ Applicable when the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.
- ✓ Also deals with how the form and content of the auditor's report is affected when the auditor expresses a modified opinion.

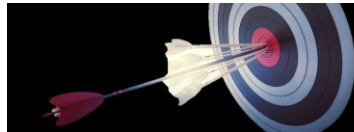


Effective Date

This SA is effective for audits of financial statements for periods beginning on or after April 1, 2018.



Objectives



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

- The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or
- The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Types Of Modified Opinions

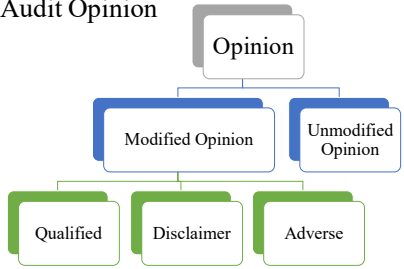
This SA establishes three types of modified opinions, namely,

- ✓ a qualified opinion,
- ✓ an adverse opinion, and
- ✓ a disclaimer of opinion.

The decision regarding which type of modified opinion is appropriate depends upon:

- The nature of the matter giving rise to the modification,
- The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

Audit Opinion



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

The auditor shall modify the opinion in the auditor's report when:

- The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Determining the Type of Modification to the Auditor's Opinion

Qualified Opinion

The auditor shall express a qualified opinion when:

- 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
- 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**.

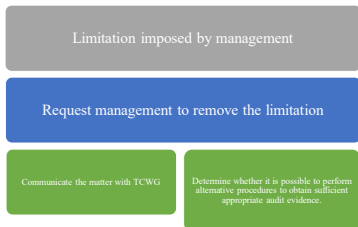
Adverse Opinion

❑ 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.

Disclaimer of Opinion (in extremely rare circumstances involving multiple uncertainties)

❑ 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**.

Imposed Limitation after the Auditor Has Accepted the Engagement



When the Report is Modified...

- 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 i) in these circumstances would contradict the auditor's adverse opinion or disclaimer of opinion on the financial statements as a whole.

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

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.



Qualified Opinion

- When the auditor expresses a qualified opinion, 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:
- 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
- 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.

Adverse Opinion

- 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:
- 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
- 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.

Disclaimer of Opinion

- When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall:
- State that the auditor does not express an opinion on the accompanying financial statements;
- 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
- Amend the statement which indicates that the financial statements have been audited, to state that the auditor was engaged to audit the financial statements.

Basis for Opinion

- ❑ When the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by SA 700 (Revised):
 - 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
 - Within this section, include a description of the matter giving rise to the modification.

- ❑ 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.



Scope Of The Standard

- When the auditor includes a Key Audit Matters (as per SA 701) 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.

- SA 570 (Revised) establishes requirements and provides guidance about communication in the auditor's report relating to going concern.

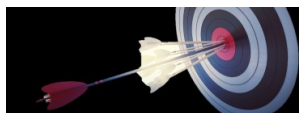


Effective Date

This SA is effective for audits of financial statements for periods beginning on or after 01st April, 2018.



Objectives



For additional communication in the auditor's report when the auditor considers it necessary to:

- ✓ Draw users' attention to matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements
- ✓ Draw users' attention to any 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.

Emphasis Of Matter

The auditor shall include an Emphasis of Matter paragraph (with regards to matter presented or disclosed in the financial statements) in the auditor's report provided:

The auditor would not be required to modify the opinion in accordance with SA 705

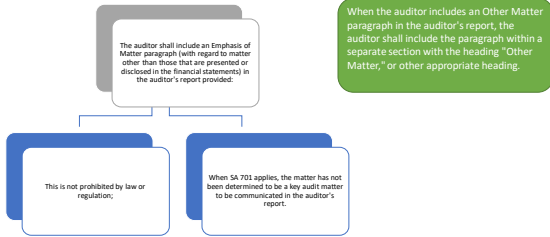
The matter has not been determined to be a key audit matter as per SA 701

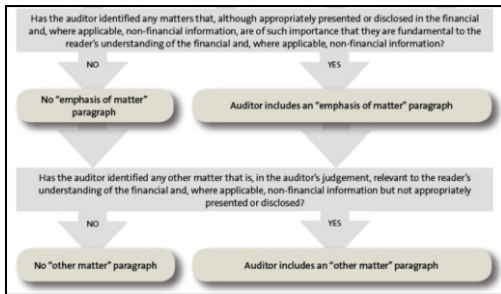
Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter"

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

Indicate that the auditor's opinion is not modified in respect of the matter emphasized.

Other Matter Paragraph





Communication with TCWG


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.





Introduction

On 17 May 2016, the ICAI issued **Standard on Auditing (SA) 701** *Communicating key audit matters in the Independent Auditor's Report*. The most significant change to the auditor's report on the financial statements as a result of the issuance of SA 701 is a new requirement to describe key audit matters (KAMs) arising from the audit of the current period's financial statements in the auditor's report.

 KAMs are 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. [SA 701.6]



Background

Background

- An audit report is a culmination of an audit process and such report presently contains a simple pass/fail opinion of the auditor on a set of financial statements.
- Therefore there has been an urgent need to enhance the auditor report, thereby making it more useful to the users of the financial statements.

Effective date:

- Effective for periods beginning on or after April 1, 2018. Applicable to audits of complete sets of general purpose financial statements of listed entities and circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report.
- KAM is optional for unlisted entities and can be given by auditors voluntarily to promote consistency and comparability.

Applicability Of Key Audit Matters

- ✓ SA 701 applies to audits of complete sets of general purpose financial statements of listed entities (with securities listed in India or outside India).
- ✓ However, entities which are in the process of listing are not covered under SA 701. They will get covered from the financial year in which they are listed.
- ✓ It is applicable in circumstances when the auditor otherwise decides to communicate Key Audit Matters (KAMs) in the auditor's report.
- ✓ It is also applicable in case the law or regulation requires an auditor to communicate KAM in the auditor's report.

Key Audit Matters

Expected Benefits :

- Increased Confidence in Financial Statements.
- Enhanced communication about the audit directly from the auditor
- More informative, transparent and relevant auditor's report.
- Enhanced discussions between auditors and TCWG.
- Improved quality of financial reporting.



Key Audit Matters

Challenges and Opportunities :

- Describing KAMs in a succinct and understandable manner.
- Early engagement between the auditor and those charged with governance.
- Additional time likely needed to finalise the auditor's report (depending on complexity of matters that are KAMs).



Key Audit Matters

Factors to consider in determining matters that required significant Auditor's attention:

- Areas of higher risk of material misstatement or significant risks identified.
- Areas including significant auditors judgement including accounting estimates with high estimation uncertainty.
- The effect on audit of significant events or transactions during the period.



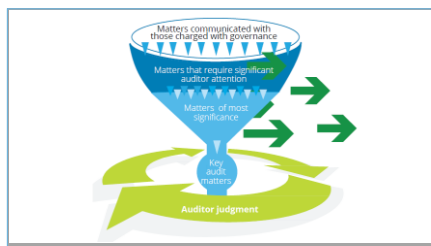
Key Audit Matters (KAMs)

Communicate each KAM in the auditor's report:

- Each KAM should include a reference to the related disclosure(s), if any in the financial statements and should address :
 - a) Why the matter was considered to be one of most significance in the audit and therefore determined to be a KAM.
 - b) How the matter was addressed in the audit.
- If there are no KAMs identified, include a statement to that effect.



Key Steps To Perform



Step 1 — Identify matters communicated with those charged with governance

- ✓ The first step in the process of identifying KAMs is to determine the matters communicated with those charged with governance in connection with the audit of the current period's financial statements
- ✓ Shall include those that will be most meaningful to investors and other financial statement users.
- ✓ Shall include those communicated orally or in writing throughout the entire audit or during reviews of interim financial information, including discussions led by management

Step 2 — For each matter identified in Step 1, determine matters that required significant auditor attention

The second step in the process of identifying KAMs is to determine whether the matters identified in Step 1 require significant auditor attention.

What does significant auditor attention mean?
 Areas of significant auditor attention often relate to areas of complexity and significant management judgment in the financial statements, and therefore often involve difficult or complex auditor judgments. In turn, this often affects the auditor's overall audit strategy, the allocation of resources and extent of audit effort in relation to such matters.

These effects may include, for example, the extent of involvement of senior personnel on the audit engagement or the involvement of an auditor's expert or individuals with expertise in a specialised area of accounting or auditing to address these areas. [SA 701.A14]

Step 3 — For each matter identified in Step 2, determine matters that were of most significance in the audit of the financial statements in the current period

The concept of matters of most significance is applicable in the context of the entity and the audit that was performed. As such, the auditor's determination and communication of key audit matters is intended to identify matters specific to the audit and to involve making a judgment about their importance relative to other matters in the audit. [SA 701.A28]

The number of key audit matters to be included in the auditor's report may be affected by the size and complexity of the entity, the nature of its business and environment, and the facts and circumstances of the audit engagement. In general, the greater the number of matters initially determined to be key audit matters, the more the auditor may need to reconsider whether each of these matters meets the definition of a key audit matter. Lengthy lists of key audit matters may be contrary to the notion of such matters being those of most significance in the audit. [SA 701.A30]

