

**Workshop on “ Revised Audit Report” under SA 700, SA 705 & SA 706
(Applicable for Corporates & Non-Corporates)**

Karnataka State Chartered Accountants Association

Sharda Sabangana - KLE Society Nijalingappa College

7th Aug 2019



CA K. Gururaj Acharya, Bangalore
acharya@kgacharya.com

Revised Audit Report requirement Under

- **SA 700** The Auditor's Report on Financial Statements
- **SA 705** Modification to the opinion in the Independent Auditors Report
- **SA 706** Emphasis of Matter & Other Matter Para in independent auditor's report
- **SA 701** Key Audit Matters
- **SA 720** Auditor's responsibility in relation to Other Information in documents containing Audited Financial Statements.

Applicable for Corporates & Non-Corporates



Reporting Standards wrt Audit Reports – Revised

	Applicable for Audits for FS beginning from
SA 700	1 st April 2003
SA 700 Rev - 705 - 706	1 st April 2012
Rev SA 700 - Rev 705 - Rev 706 - 701- Rev 720	1 st April 2018

- Implementation Guide from ICAI in Q&A format.
- Audit reports signed after April 1, 2018 - pertaining to FS for periods beginning before April 1, 2018 - will not be governed by Rev. SA 700.

ICAI's Central Council on March 25 decided to defer applicability of SA 701 - KAM, by 2 years i.e WEF April 1, 2020 - **Which was denied by NFRA.**





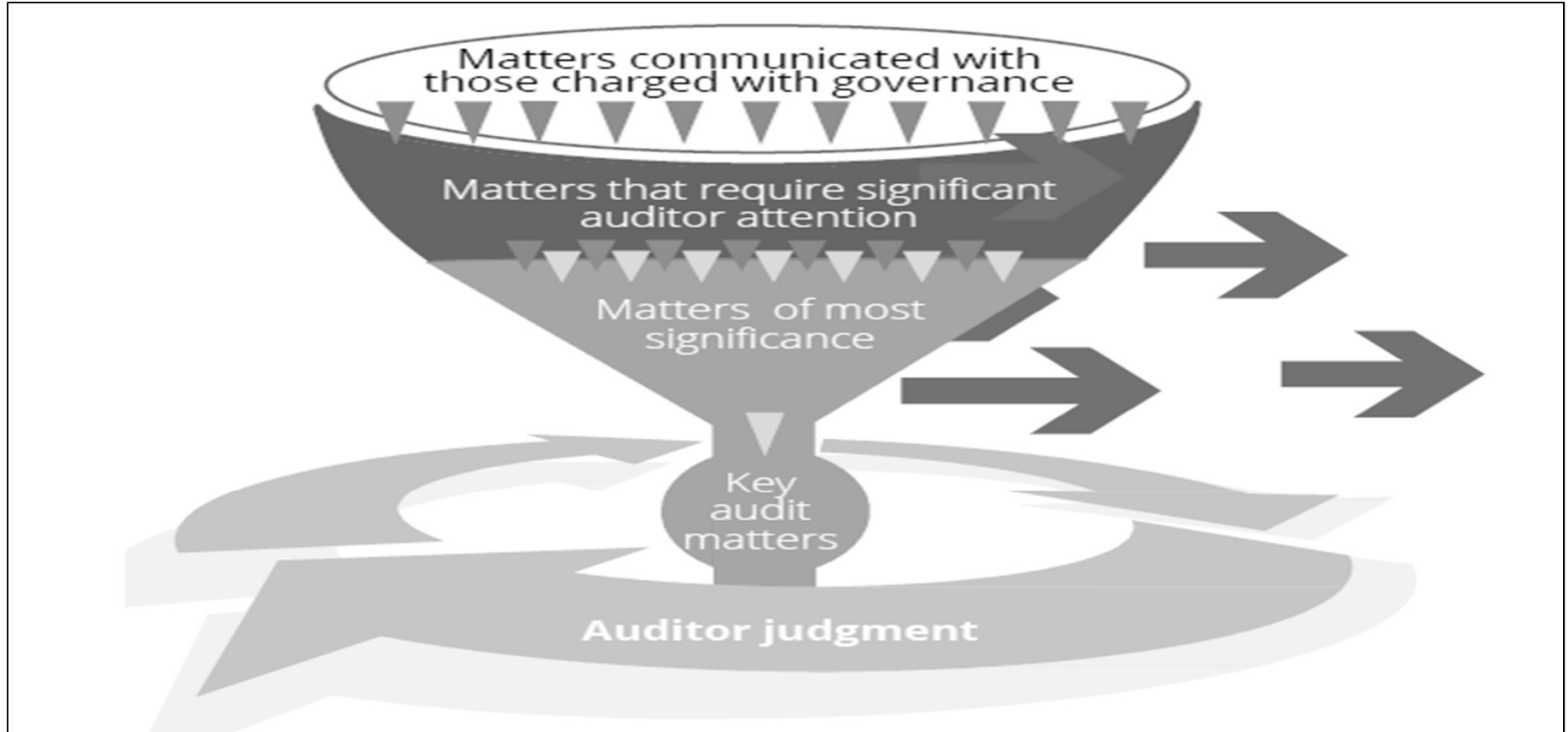
Audit Report - Types

Audits for FS beginning from 1-4-2018

SA 700, 701, 705, 706

SA	Title	Opinion	Which means
R. 700	Forming an Opinion & Reporting on FS	Unmodified (Unqualified)	All is well
701	Key Audit Matters - KAM <ul style="list-style-type: none"> • Mandatory for Listed Entities • For others if A'tor decides to communicate 	<i>Most significant matters in audit of FS - in auditor's professional judgment - selected from matters communicated with TCWG. —————></i>	
R. 705	Modifications to Opinion in the Independent Auditors Report	Modified	
		Qualified	Gen. everything is well, Except for _____
		Adverse	Nothing is well
		Disclaimer	Unable to comment due to scope limitation – Could lead to Resignation
R. 706	Emphasis of Matter Para. & Other Matter Para. in the Independent Auditor's Report	EoM	All is well but please refer Note No_ in FS.
		OM	All is well - Please be informed about an <u>audit point</u> in Audit report.

SA 701 – Key Audit Matters – Funnel Approach



- Communicating KAMs in auditor's report does not change auditor's responsibilities in any way
- KAMs may be perceived by users to enhance audit quality and improve confidence that they have in audit & related FS.

Auditor to communicate with TCWG matters that he intends to communicate as KAM providing them an opportunity to obtain further clarification when necessary - also enable them to consider whether such disclosures are useful when communicated in auditor's report.

Description of each KAM to cover 3 aspects

Under the KAM Para – after introductory words explaining what is KAM as in para 11 of SA 701

1. Reference to related disclosures (if any) in FS.

If there is no such disclosure, management must be encouraged to include it – to avoid danger of auditor unwittingly providing any original information = not otherwise been made publicly available by the entity.

2. Why matter considered most significant in audit & **determined as KAM.**

- i. Areas of higher assessed ROMM or significant risks identified as per SA 315
- ii. Significant auditor judgments relating to areas in FS involving significant management judgment, having high estimation uncertainty.
- iii. Effect on audit of significant events / unusual transaction that occurred during period. EX:

Related party transaction.

[Don't assume that KAMs could result only from a consideration of above 3 specific indicators – Also all 3 indicators need not co-exist to determine KAMs.]

→ Use Funnel Approach

3. How matter was **addressed in audit** - May cover –

- i. Auditor's response or approach to address the matter
- ii. A brief overview of procedures performed
- iii. An indication of the outcome of the auditor's procedures
- iv. Auditor's Key observations with respect to the matter

[Conclusion on each KAM not a must as ultimate audit conclusions are provided in auditor's opinion on FS]

Adequacy of description of a KAM is matter of PJ.

MATTERS TO BE CONSIDERED BY THE AUDITOR IN DETERMINING KAMS -
I. Significant risks

To determine a risk as significant the auditor considers:

1. Whether it is a fraud risk;
2. Whether the risk relates to major changes in developments that impact the entity or its business;
3. Whether the risk arises from complexity of transactions;
4. Whether there are significant related party transactions;
5. Whether measurements of amounts included in FS involve a high level of subjectivity or measurement uncertainty; and
6. Whether the risk involves significant events or transactions that are outside the normal course of business of the entity or appear to be unusual in nature.

MATTERS TO BE CONSIDERED BY THE AUDITOR IN DETERMINING KAMS -

II. Significant Judgements

Estimates involving judgements are generally made in following areas - **often involve making assumptions about matters that are uncertain at time of estimation:**

1. Allowance for doubtful accounts;
2. Inventory obsolescence;
3. Warranty obligations;
4. Depreciation method used or useful life of assets;
5. Provision against carrying amounts of investments;
6. Outcome of long-term contracts;
7. Financial obligations or costs arising from litigation;
8. Complex financial instruments that are not traded in an open market;
9. Share-based payments;
10. Property or equipment held for disposal;
11. Goodwill, intangible assets or liabilities acquired in a business combination;
12. Transactions involving non-monetary exchange.

MATTERS TO BE CONSIDERED BY THE AUDITOR IN DETERMINING KAMS -

III. Significant events and transactions

Auditor needs to exercise professional judgement to determine if a significant event or transaction that he encounters in an audit poses a risk of material misstatement or not. Some such events are listed below:

1. Operations in economically unstable regions, volatile markets, or those subject to complex regulation;
2. Cash flow crunch, non-availability of funds, liquidity & going concern issues, or loss of customers;
3. Changes in the industry where the entity operates, or in the supply chain;
4. Forays into new products, services, lines of business, or new locations;
5. Failed products, service lines, ventures, business segments or entities;
6. Complex alliances, joint ventures, or significant transactions with related parties;
7. Use of off-balance sheet finance, special purpose entities & other complex financial arrangements;
8. Distress related to personnel like non-availability of required skills, high attrition, frequent changes in key executives;
9. Unremedied internal control weaknesses;
10. Inconsistencies between entity's IT & business strategies, changes in IT environment, installation of new IT systems & controls having a bearing on revenue recognition or financial reporting;
11. Inquiries into the entity's business by regulators or government bodies;
12. Past misstatements, history of errors, or significant period-end journal entries;
13. Significant non-routine or non-systematic transactions, including inter-company transactions & large revenue transactions at or near period-end;
14. Transactions recorded based on management intent, Ex: debt financing, intended sale of assets, classification of marketable securities;
15. Application of new accounting pronouncements;
16. Pending litigation and contingent liabilities.

KAM Reporting wrt Inventory Provisioning in a Manufacturing Co.

Why KAM ?

- i. Co. manufactures & sells goods s.t **changing consumer demands & trends**, increasing the level of judgment involved in estimating inventory provisions.
- ii. Judgment required to assess appropriate level of provisioning for items that may be ultimately discarded or sold below cost as a result of a reduction in consumer demand, trading conditions & company's brand strategy.
- iii. Management judgments include expectations of future sales based on current forecasts & inventory liquidation plans.

How audit addressed KAM and is reported in Audit Report

- i. **Critically assessed** basis for inventory provisions (for both FG & RM), consistency of provisioning in line with policy & rationale for recording of specific provisions in the context of management's key product strategies.
- ii. Tested provision calculations & determined that it appropriately considered **ageing profile of inventory, process for identifying specific problem inventory & historical loss rates.**
- iii. Assessed key assumptions in management's estimate including expected future use of both RM & FG.
- iv. Auditors satisfied themselves that inventory provisions have been prepared in line with policy & have been calculated & recorded based on historical trends, as well as management's expectations for future sales & inventory management plans.

KAM - Examples

1. Reference	Note xx reg. Goodwill Impairment
2. Why determined as KAM	Judgemental & based on assumption affected by expected future market condition.
3. How addressed	Used Valuation expert - Disclosure of assumption

- Certain complex areas relating to **revenue recognition**.
- **Provisions & contingencies**.
- **Taxation matters** (multiple tax jurisdictions, uncertain tax positions, DTA).
- Assessment of **impairment**.
- **IT systems & controls**.
- **Going concern assessment** - Effect of volatility in precious metal prices

Involved - Senior personnel, auditor's expert, keeping the auditor up at nights

IN SHORT - AREAS WHICH COULD ACT AS GOOD START:

- ❖ Significant estimates / judgements involved,
- ❖ Auditor had need to use experts,
- ❖ Auditor had need to seek consultation,
- ❖ Significant transactions with related parties outside normal course of business,
- ❖ Potential matters having significant effect on auditor's overall strategy.

Use of Auditor's PJ in Presentation of KAM

1. Order of presentation of individual KAM.

2. Order of Individual KAM:

- Relative importance of each KAM.
- Based on auditor's judgment.
- Corresponding to manner in which such matters are disclosed in FS.

3. Number of KAM - No Ceiling By SA

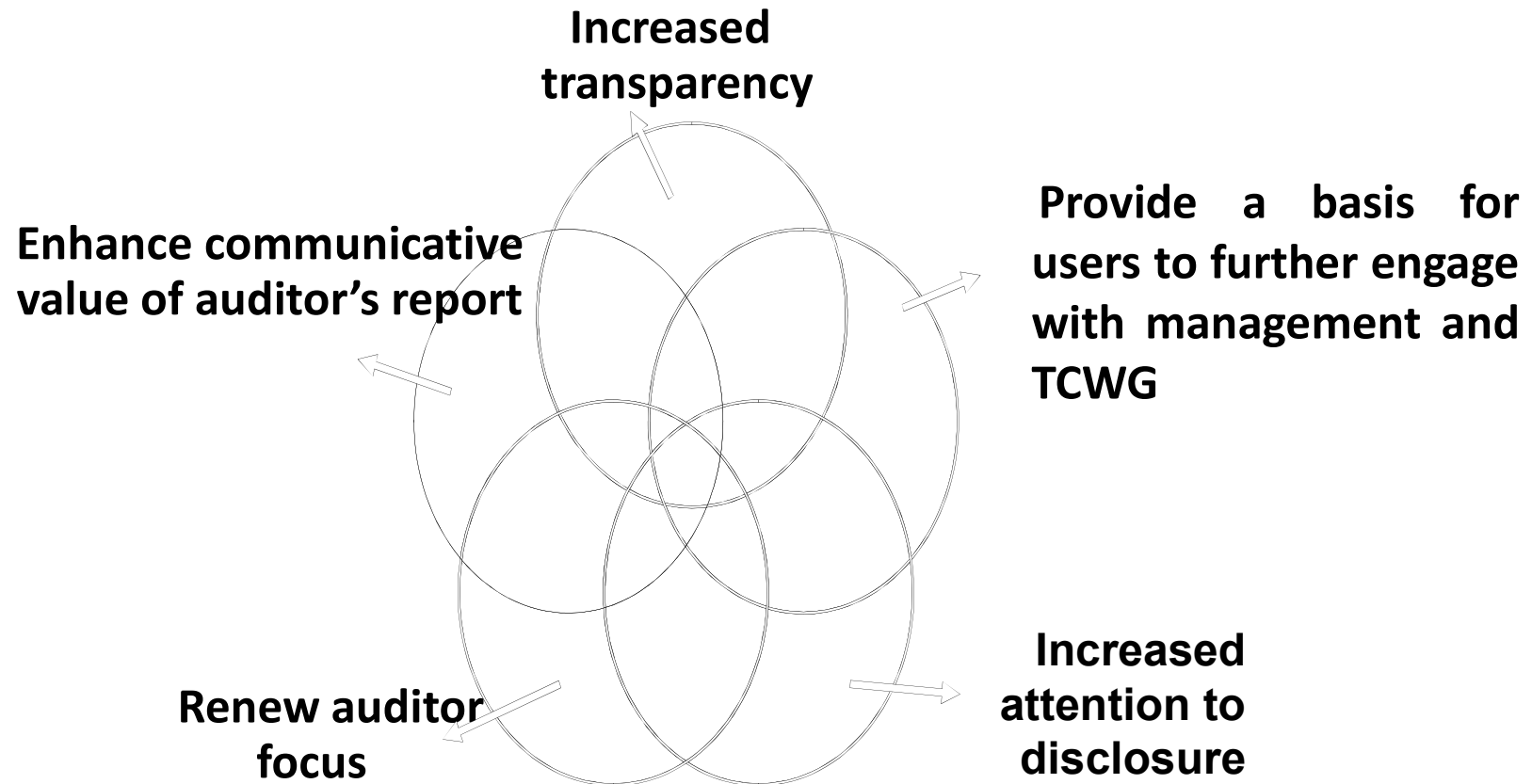
- Complexity of the entity
- Nature of entity's business & environment
- Facts & circumstances of audit engagement.
- Lengthy list of KAMs are contrary to notion of such matters being most significant in audit (2-4 No of KAMs international - Industry Avg.)

If there is no KAM to communicate - Rare situation - KAM section is still required - as

*"[Except for the matter described in the Basis for Qualified (Adverse) Opinion section or Material Uncertainty Related to Going Concern section,] **We have determined that there are no KAM to communicate in our report.**"*

Benefits of SA 701 – KAM

Under related PCAOB Standard of USA, KAMs are called Critical Audit Matters (CAMs)



1. Value Add by providing additional information (Like IFC Report)
2. Makes Audit Report Distinctive (Own Story & Character) even when the report is “clean”- Transformed from standard pass/fail opinion to more meaningful & customised report.

KAM must be entity-specific and relate to facts & circumstances of current-period audit

- **Different KAMs in different years**

Although possible, given that identification of KAM is a result of risk assessment procedures adopted by an auditor - **May be unlikely that KAM would be entirely different in different years.** FAQ 21 of IG.

- **Different KAMs in same industry / similar type of business**

Although possible, **certain matters may be determined as KAM in a particular industry** across a no. of entities due to circumstances of industry or underlying complexity in financial reporting. FAQ 22 of IG.

Circumstances where a KAM should not be communicated

1. Law or regulation precludes public disclosure about that matter; or
2. In extremely rare circumstances, auditor determines that matter should not be communicated because adverse consequences of doing so > public interest benefits of such communication.



Opinion para wording in an Audit Report issued under SA 705

Heading	Words to be used in the para
▪ Qualified opinion	Except for #
▪ Adverse Opinion	DO NOT present
▪ Disclaimer of Opinion	DO NOT EXPRESS an Opinion on FS

**# “subject to” or “With the foregoing explanation”
Not to be used as it is not sufficiently clear or forceful**

Auditor to communicate before reporting with modified opinion under SA 705
with TCWG about **circumstances** leading to expected modification &
proposed wording of modification, thereby giving them an opportunity to
obtain clarification from auditor where necessary.



SA 705 – Modifications to the Opinion in the Independent Auditor's Report

Criteria & Nature of Modification – SA 705

Nature of matter giving rise to modification	Auditor's judgment about Materiality & Pervasiveness of Effects or Possible Effects on FS	
	Material but Not Pervasive	Material & Pervasive
FS are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Pervasive misstatement = **So serious** that All purposes of **Financial statements** are useless



SA 706 – Emphasis of Matter Paragraphs & Other Matter Paragraphs in the Independent Auditor’s Report

Additional communication in Auditor’s Report when Auditor’s considers it is

a) <u>Fundamental</u> to users’ understanding of FS	Highlighting a matter already in FS – refer to note in FS	EOM [Not being material misstatement]
b) <u>Relevant</u> to user’s understanding of Audit, Auditor’s responsibility or Auditor’s report [Not to include matters related to FS]	Matter NOT in FS – Limited to matters related to audit	OM

**Also in para indicate that Auditor’s Opinion is NOT Modified
in respect of matter emphasized.**

Emphasis of Matter

We draw attention to the following matters in the Notes to the financial statements:

Note X to the financial statements which, describes the uncertainty related to the outcome of the lawsuit filed against the Company by XYZ Company.



Our Opinion is not modified in respect of these matters.

Other Matter

We did not audit the financial statement / information of _____ (number) branches included in the financial statements of the Company whose financial statements / financial information reflect total asset of Rs. _____ as at 31st March, 2019 and total revenues of Rs. _____ for the year ended on that date, as considered in the financial statements. The financial statements / information of these branches has been audited by the 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.

Revised Audit Report For audit of FS WEF 1.4.2018 **Changes at a glance**

1. **Opinion at the beginning**
2. **Basis of opinion para to be given even for Clean Report stating -**
 - a) Audited as per SA 
 - b) Refer to Auditor's Responsibility para
 - c) Refer Auditor's independent- Ethical- COE
 - d) SAAE obtained
3. **“EOM - KAM (For listed entities only)” para to be given immediately after “Opinion” & “Basis of Opinion” para.**
4. **Enhanced communication w.r.t Going Concern**
“Going concern” assertion para to be given under Management Responsibility and by Auditor in A's Responsibility para &
If material uncertainty exists wrt GC disclose under separate section instead of under EOM
5. **Other information - Info other than the FS & A's Report thereon (SA -720)**
6. **Under Auditor's Responsibility, wordings rationalised, bringing the** 
 - a) Main objective of Audit in the main report
 - b) Other responsibility - Elaborate assertion 1+7+1 points - can be in separate annexure
 - c) **Option to disclose Description of materiality - providing amount of materiality considered in planning & performance of audit.**

Assertions are very broad & onerous. If in subsequent review of audit process, it is found that some audit procedures detailed were not in fact complied with, it may tantamount to auditor making deliberate false declaration in his report & consequences for auditor could be serious.

Compendium of Engagement and Quality Control Standards

SA 38

100 – 999

SRE 2

Std on Review Engagements

2000-2699

Engagement Standards

Ensure to take DIN

SAE 3

Standards on Assurance Engagements

3000-3699

SRS 2

Standards on Related Services

4000-4699

Plus SQC-1

Format of Audit Report as per SA 700-705-706 (R) For audit of FS WEF 1.4.2018



Pre	Revised	
1. Title	1. Title	Independent Auditor's Report
2. Addressee	2. Addressee	To the members of ABC Co. Ltd.
Report on the FS 3. Introductory	Report on the Audit of the FS 3. (Modified) Opinion with Introductory	We have audited the accompanying FS of -- True & Fairness
4. Management's Responsibility	4. a. Basis for (Modified) Opinion [SA 705] b. Material uncertainty related to GC c. Emphasis of Matter para [SA 706] d. Key Audit Matters # (Listed – SA 701) e. Other information as per SA 720(R) f. Other Matters — Scope of the Audit [SA 706]	Even for Clean Report – Basis for opinion is to be provided. a. Audited as per SA b. Refer to Auditor's Resp. para c. Affirm Auditor's independent- Ethical- COE d. SAAE obtained
5. Auditor's Responsibility		
6. Basis for Modified opinion		
7. (Modified) Opinion	5. Management Responsibility & TCWG	Management's Resp. wrt FS
8.a. Emphasis of Matter para b. Other Matters	6. Auditor's Responsibility	<i>Detailed assertion in Appendix</i>
9. Report on other Legal & Regulatory requirements	7. Report on other Legal & Regulatory requirements	Will include – if applicable - CARO - IFC
10. CA signing details	8. CA signing details	Name of Firm with FRN & Signing partners with Mem. No. & designation
11. Place & Date of Signature	9. Place & Date of Signature	

KAM — Most significant matters in audit of FS - in auditor's professional judgment - selected from matters communicated with TCWG

Snapshot of Audit Report Format as per SA 700-705-706 (R) For audit of FS WEF 1.4.2018

I. Report on FS

1. **Opinion** (Qualified opinion / Adverse opinion / Disclaimer of opinion)
2. **Basis of opinion** (Basis for Qualified opinion / Adverse opinion / Disclaimer of opinion)
3. **Material uncertainty related to Going Concern.** *If needed*
4. **EOM** (To differentiate from KAM - 'EOM - Subsequent event' type heading can be used)
5. **KAM** (May be placed before EOM, if KAM is very important)
6. **Other information** (Info other than the FS & A's report thereon) \Rightarrow
7. Management responsibility
8. Auditor's responsibility + **Annexure 'A' description of assertions.**
9. **Other Matter - OM** (could be placed after report on other legal and regulatory requirement para)

II. Report on other legal & Regulatory Requirements

4 in 1 Report

1. CARO Report if applicable
2. S. 143(3) Auditor's Report incl. IFC Report \Rightarrow

Other Information / Info. other than the FS & auditors' report thereon

Situation 1: If Director's report (any other info.) is available before signing - From Illustration 1 of SA 720

The Company's Board of Directors is responsible for the other information. The other information comprises the information included in the Directors' Report, (any other ...) but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Information / Info. other than the FS & auditors' report thereon

Situation 2: If Other info Not available when signing - From Illustration 4 of SA 720

The Company's Board of Directors is responsible for the other information. The other information comprises the information included in the Directors' report (any other), but does not include the financial statements and our auditor's report thereon. The Directors' report (any other) is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Directors' report (any other), if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and ~~(describe actions applicable in the applicable laws and regulations).~~

Other Information / Info. other than the FS & auditors' report thereon

Situation 3: If Other info is partly available but additional info. yet to be made available when signing

From Illustration 3 of SA 720

The Company's Board of Directors is responsible for the other information. The other information comprises the information included in the Directors' report (any other ...), but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the Y (For Ex: Management Report, Chairman's Statement) report, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

[When we read the Y report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance ~~and [describe actions applicable under the applicable laws and regulations]~~

S. 143(3) Auditor's Report – Prescribed points



- a) Information & Explanation obtained
- b) Proper books maintenance (#)
- c) Branch Auditor's report how dealt with (*)
- d) Agreement with books
- e) Compliance with A/S
- f) Observation or comments of Auditor's on financial transactions or matters which have any adverse effect on the functioning of Co. (*)
- g) Director disqualification U/s.164(2)
- h) Any qualification, reservation or adverse remarks relating to the maintenance of A/Cs and other matters connected therewith. (#) (*)
- i) Report on IFC in place & operating effectiveness of such control
- j) Such other matter as may be prescribed: - Rule 11 - 3 points
 - i. *Impact of Pending litigation*
 - ii. *Provision wrt losses on long term contracts & derivatives*
 - iii. *Any delay in transfer to IEPF.*

** Can be dropped if not applicable*

Inter-connected

COMPANIES AUDIT REPORT – MASTER TEMPLATE

Note:

- 1. The underlined text in the master template below refers to the changes made vide Revised SA 700 issued by ICAI effective for audit of FS commencing from 1.4.2018. The struck off portion represents the earlier version not any more required. For illustrative purposes, multiple Reporting Possibilities have been provided for benefit of the readers and suitable option has to be chosen based on Auditor's judgment considering the facts of the case.*
- 2. Under the New Companies Act 2013, reporting in "Bold & Italics" by Auditor has been done away with. Phrases in **Bold Type** and inside circles are for emphasis only and are not to be considered for reporting.*

INDEPENDENT AUDITORS REPORT

Title

TO THE MEMBERS OF *ABC COMPANY PVT. LTD.*,

Addressee

Report on the Audit of the Standalone^() Financial Statements*

Opinion:

We have audited the ~~accompanying~~ standalone^(*) financial statements of **ABC Company Private Limited.**, (“the Company”), which comprise the Balance Sheet as at 31 March, 20XX, the Statement of Profit and Loss, (statement of changes in equity) the Cash Flow Statement for the year then ended, and notes to the financial statement including a summary of significant accounting policies and other explanatory information, [in which are included ~~incorporated~~ the Returns for the year ended on that date audited by the branch auditors of the company’s branches located at (location of the 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 state of affairs of the Company as at March 20XX and Profit / loss, (Changes in equity) and its cashflows for the year ended on that date.

Basis for Opinion

[Fill in details of qualification, if any here as per SA 705 – in that case the heading would read as “**Basis of Qualified Opinion**” – Also the last para under the “Opinion” para above would undergo a change with the insertion of the wordings “**except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report**” in { \$ }.]

- Qualification [SA 705]- if any

We conducted our audit in accordance with the **Standards on Auditing** (SAs) specified U/s. 143(10) of the Companies Act, 2013 (“The Act”). / 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 Act 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*. (*Qualified audit opinion/adverse audit opinion*)

[Drop last sentence in case of disclaimer of opinion]

- **Material uncertainty related to Going Concern.** *If needed*
- **Emphasis of Matter para [SA 706]**- *To differentiate from KAM – ‘EOM – Subsequent event’ type heading can be used*
- **Key Audit Matters (SA 701)** – *Mandatory for listed entities [If EOM is not very important KAM may be placed before EOM]*

[Key audit matters— Most significant matters in audit of FS - in auditor's professional judgment - selected from matters communicated with TCWG.]

- **Other information** - *Info other than the FS & A's report thereon.*

Responsibilities of Management's and Those Charged with Governance[#] for the standalone^(*) Financial Statements. Management Responsibility for the Standalone^(*) Financial Statements

[# Normally Management refers to BOD and TGWC refers to ACB -Identify those responsible for the oversight of financial reporting process, when those responsible for such oversight are different from those who fulfill the responsibilities for preparing FS (ACB). In this case, heading of this section shall also refer to "TCWG" or such term that is appropriate in context of legal framework applicable to the entity]

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Act with respect to the preparation of these standalone^(*) financial statements that give a true and fair view of the financial position, financial performance, (changes in equity) and cash flows of the company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified u/s 133 of the Act. ~~read with Rule 7 of the Companies (Accounts) Rule, 2014.~~ This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to **continue as a going concern**, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

→
Going Concern assertion

Those Board of Directors are also responsible for overseeing the company's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

[Or could provide a definition / description of materiality]

~~Our responsibility is to express an opinion on these Standalone^(*) financial statements based on our audit.~~

~~We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.~~

~~We conducted our audit in accordance with the Standards on Auditing specified u/s 143(10) of the Act. 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 the 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 financial control relevant to the Company'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 whether the Company has in place an adequate internal financial controls system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by Company's Directors, 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 on the standalone^(*) financial statements.~~

A further description of our responsibilities for the audit of the financial statements is included in **Annexure A of this auditor's report. This description, which is located at [page number 5 or other specific reference to the location of the description], forms part of our auditor's report.**

- **Other Matters** – Reg Audit – opinion not modified [SA 706] - could be placed after report on other legal and regulatory requirement para [“OM - Scope of the Audit”, word to be used only if KAM is given to differentiate Other Matter paragraph from the individual matters described in KAM section.]

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor’s Report) Order, 2016 (“the Order”), issued by the Central Government of India in terms of S.143(11) of the Act, we give in the **“Annexure – B”** a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.

This report does not include a statement on the matters specified in paragraph 3 of the Companies (Auditor’s Report) Order, 2016, issued by the Ministry of Corporate Affairs, in terms of Sec.143(11) of the Act, since in our opinion and according to the information and explanations given to us, the said Order is not applicable to the company.

~~2. Further to our comments in the annexure,~~ As required by Sec. 143(3) of the Act, we report that:

- a. We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
- b. In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books *[and proper returns adequate for the purposes of our audit have been received from the branches not visited by us]*
- c. *[The reports on the accounts of the branch offices of the company audited u/s 143(8) of the Act by branch auditors have been sent to us and have been properly dealt with by us in preparing this report.]*
- d. The Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement dealt with by this Report are in agreement with the books of account *[and with the returns received from the branches not visited by us.]*
- e. In our opinion, the aforesaid standalone^(*) financial statements comply with the Accounting Standards specified u/s. 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.
- f. On the basis of the written representations received from the directors as on 31st March, 2019 taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 2019 from being appointed as a director in terms of Sec. 164(2) of the Act.

- g. With respect to the adequacy of the internal financial controls wrt Financial Statement of the Company and the operating effectiveness of such controls, refer to our separate Report in '**Annexure - C**'.

OR Reporting on adequacy of IFC wrt Financial Statements and the operating effectiveness of such controls U/s. 143(3)(i) is not applicable to the Company vide exemption Notification G.S.R.583(E) dated 13.06.2017

- g. With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:

- I. The Company has disclosed the impact of pending litigations on its financial position in its financial statements – Refer to Note XX to the financial statements; *[or the Company does not have any pending litigations which would impact its financial position]*
- II. The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts–Refer to Note X to the financial statements; *[or the Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.]*
- III. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company {or, following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company or there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company}

Date
Bangalore

For M/s. K.G. Acharya & Co.,
Chartered Accountants
FRN _____

Partner / Proprietor
M. No. _____

(*) 'Standalone' to be deleted when Company does not have to prepare Consolidated Financial Statement

Apart from considering modification to the opinion as per Revised SA 705, the auditor will also have to consider his opinion as in the IFCOFR report at the time of giving his opinion in the Main audit report.

Annexure A to the Auditor's Report

[Key assertion as per the parent SA-200: Overall objectives of the independent Auditor & the conduct of an audit in accordance with SA – These assertions could also be given in the body of the report itself]

As part of an audit in accordance with SAs, we exercise **professional judgment** and maintain **professional skepticism** throughout the audit. We also:

- Identify and assess the **risks of material misstatement** of the financial statements, **whether due to fraud or error**, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. ***U/s.143(3)(i) of the 2013, we are also responsible for expressing our opinion on whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls. [IF IFC Report not given instead of 2nd sentence state- “but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.”]***
- Evaluate the **appropriateness of accounting policies** used and the **reasonableness of accounting estimates and related disclosures** made by management

1. ROMM - Fraud v Error

2. IFC - Study & Report, if applicable

3. AP, AE & Disclosures OK

Reporting on IFC - NOT APPLICABLE to Private Co's iff - [VIDE NOTIFICATION DTD 13-06-2017]

- Turnover < Rs. 50 Cr or Aggregate Borrowings < Rs. 25 Cr AND
- it has not committed default in filing its FS u/s 137 or AR u/s 92 with ROC.

- Conclude on the appropriateness of management's use of the **going concern** basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

4. 'Going Concern' assertion

- Evaluate the overall **presentation, structure and content** of the financial statements, including the **disclosures**, and whether the financial statements represent the underlying transactions and events in a manner that achieves **fair presentation**.

5. Presentation & Disclosure is fair

We **communicate** with those charged with governance regarding, **among other matters, the planned scope and timing of the audit and significant audit findings**, including any significant deficiencies in internal control that we identify during our audit.

6. Communication to TCWG

We also **provide those charged with governance with a statement** that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

7. Ethics Complied

We also, from the matters communicated with those charged with governance, **determine those matters that were of most significance in the audit** of the financial statements of the current period **and are therefore the key audit matters**. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. *(Note: This point is to be given for audit of entities to which key audit matters are communicated as per SA 701)*

8. Determination of KAM - if applicable

SFIO on Auditors of IL&FS

- The firm did not audit IL&FS books with due care and professional scepticism.
- The probe has revealed that the auditors have failed to perform the duties as mandated under the Companies Act.
- **Audit & Credit rating agencies are part of the IL&FS failure crisis. There is material evidence to show that they failed to apply basic test for transaction analysis.**
- **Auditors completely overlooked the asset book and had not examined & reported properly.** There was lack of due diligence wrt to loans sanctioned by IFIN. There are instances where non-compliance are apparent and the firm turned a blind eye.

Statutory auditor of a listed entity shall undertake limited review of audit of ALL entities/companies whose accounts are to be consolidated
– WEF 1st April 2019 as per amended Regulation 33 of SEBI LODR, 2015.

Concern wrt Going Concern vis-à-vis Audit Report

	Earlier	Now #
FS prepared using GC basis of accounting		
I. A'r opines it is inappropriate	Adverse	Adverse
II. A's opines it is appropriate , <u>but a material uncertainty exists</u> , and	EOM	a. Separate section under 'Material Uncertainty related to Going Concern'. ----- b. Modified opinion
a. Adequate disclosure of material uncertainty is made in FS		
----- b. Adequate disclosure of material uncertainty is not made in FS	Qualify ?	

		If KAM applicable	If KAM Not applicable
III. If <u>No material uncertainty reg. GC</u> , but is fundamental to users understanding	<u>May</u> disclose under EOM as per SA 706	<u>May</u> disclose under KAM as per SA 701	<u>May</u> disclose under EOM as per SA 706

New descriptions of responsibilities relating to GC to be included in respective sections for management's & auditor's responsibilities.

Material Uncertainty Related to Going Concern

(Include only is applicable)

The Company's net worth is negative and the borrowings from banks & financial institutions have been classified by the lenders as NPA during the year. The next hearing of the consortium banks is expected to be in June 2019. We were informed that the Company is also in the process of identifying alternative business plans to improve the performance of the Company and to initiate a OTS with the banks. Pending submission of the OTS / other alternative resolution plans, a decision is yet to be taken by the lenders regarding restructuring of the Company's borrowings.

The above factors cast a significant uncertainty on the Company's ability to continue as a going concern. Pending the resolution of the above uncertainties, the Company has prepared the aforesaid statement on a going concern basis

Concern wrt Going Concern vis-à-vis Audit Report

ICAI findings

Auditors of IFIN miserably failed to report data of excessive reliance on short-term borrowings for financing long-term assets, adverse key financial ratios & significant deterioration in value of assets used to generate cash flow.

In fact, to the contrary, statutory auditors mentioned that in view of its positive net worth, positive cash flow, credit ratings & Boards' proposals, there was no doubt on the ability of the entity to continue.

This is a clear misrepresentation of facts.

KAM vs Modified Opinion

1. KAM Not a Substitute for Expressing a Modified Opinion.

- Matters giving rise to modified opinion are by nature KAM. But should be reported as per SA 705 & not under KAM.

2. KAM section – **Not to be given in case of Complete disclaimer** of opinion unless required by law or regulation.

If A'r determines one or more KAM in addition to matter which gives rise to qualified or adverse opinion, A'r can communicate those matter(s) as KAM.

KAM vs EOM / OM Para.

1. EOM/OM para cannot be used as a substitute for KAM

- when auditor is required or otherwise decides to communicate KAM

2. Matter reported under KAM must not be again reported under EOM.

- If matter determined both as KAM & EOM – Report matter more prominently than other matters in KAM section (e.g., as first matter) or by including additional info. in description of KAM to indicate importance of matter to users' understanding of FS.

**SA 700-705-706 applies to audits of
a complete set of General purpose financial statements.**

General purpose financial statements

FS prepared in accordance with a **General purpose framework**.

General purpose framework

A **Financial reporting framework** designed to meet the common financial information needs of a wide range of users.

Financial reporting framework may be a

- **Fair presentation framework or**
- **Compliance framework.**

Fair presentation framework

1. Auditor gives a “true and fair” report.
2. It should meet requirements of framework and, to achieve this, management has freedom to
 - (a) provide disclosures beyond those that are mandated by framework or,
 - (b) in rare cases, to even depart from the requirements of framework, in order to achieve a true & fair presentation.

3. Reporting illustrations under Fair Reporting Framework *[As per Illustration 1-4 of SA 700]*

Corporates:

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone FS 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.

Non-Corporate:

In our opinion, the accompanying FS give a true and fair view of the financial position of the entity as at March 31, 20XX, and of its financial performance (*and its cash flows*) for the year then ended in accordance with the AS issued by ICAI.

Compliance framework

1. Auditor reports whether FS comply with requirements of
 - Applicable laws or rules & regulations, or a set of contractual terms & conditions.
2. It necessitates meeting requirements of the framework but **does not give management, any freedom** to depart from requirement as in Fair presentation framework.
3. **Reporting illustrations under Fair Reporting Framework** [As per Illustration 5 of SA 700]

In our opinion, the accompanying FS of the entity are prepared, in all material respects, in accordance with XYZ Laws.

Hybrid Fair presentation framework & Compliance framework

There can be a situation wherein auditor reports on FS of a bank or a NBFC that is regulated by RBI and a part of the auditor's report is in relation to the compliance with RBI rules and the other part of auditor's report is on true & fair view of the entity's financial position, its performance and the cash flows.

Auditors' evaluation wrt applicable reporting framework

1. General:

1) Whether FS are prepared as per applicable financial reporting framework.

To also consider qualitative aspects of entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: Para. A1-A3)

b) Whether FS adequately refer / describe applicable financial reporting framework.

(Ref: Para. A5-A10)

2) Particular: Whether as per applicable financial reporting framework:

a. FS adequately disclose Significant accounting policies selected & applied;

b. Accounting policies selected & applied are consistent with applicable financial reporting framework and are appropriate;

c. Accounting estimates made by management are reasonable;

d. Information in FS is relevant, reliable, comparable & understandable;

e. FS provide adequate disclosures to enable intended users to understand effect of material transactions & events on information conveyed in FS; and (Ref: Para. A4)

f. Terminology used in FS, including title of each FS, is appropriate.

3. In case of Fair presentation framework, also evaluate:

a) Overall presentation, structure & content of FS; and

b) Whether FS, including related notes, represent underlying transactions & events in a manner that achieves fair presentation.

UDIN mandatory for all Audit/Assurance/Attest function

To curb Non-CAs misrepresenting themselves as CA Members

	WEF
All Certificates	1 st Feb. 2019
GST & Income Tax Audit	1 st April, 2019
All Audit & Assurance Functions	1 st July, 2019



Generate UDIN on signing date

15 days window available for exceptional circumstances. (& Stakeholders accepts same as per FAQ)

Non-compliance attracts Disciplinary Proceedings

vide Clause 1 of Part II of Second Schedule of CA Act, 1949

UDIN required for Internal Audit & Certificates including ROC form certifications

- *When in doubt - Generate UDIN*



Sathyam Vada; Dharmam Chara

Say What is True; Do What is Right

GOD cannot be present everywhere – Therefore he created ‘MOTHERS’

STAKEHOLDER’s cannot be present everywhere – Therefore he created ‘AUDITORS’

CA K. Gururaj Acharya

acharya@kgacharya.com

www.kgacharya.com