

AUDIT REPORTS & DOCUMENTATION

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What is Audit?

- An audit is a **systematic examination** and evaluation of an organization's financial records, statements, processes, controls, and operations. The purpose of an audit is to provide an **independent assessment** of the **accuracy, reliability, and fairness** of the financial information presented by an entity.

What is documentation?

- Documentation in connection with an audit refers to the process of recording and retaining **evidence, information, and working papers** related to the audit procedures performed, **findings, conclusions,** and the basis for **forming the auditor's opinion.** Documentation serves as a critical component of the audit process and is essential for several reasons.

Test your knowledge

- To what type of entities audit reports are issued?
 - A) Corporates
 - B) Non-Corporates
 - C) All types of financial statements which are attested by Chartered Accountants.
 - D) A & B
 - E) A, B & C

For answers wait till end of the session applies next 3 slides

Test your knowledge

- How many types of Audit reports are there?
 - A) One
 - B) Two
 - C) Three.
 - D) More than three depends on assignment

Test your knowledge

- Can we issue audit report for prospective / forecasts?
information?
 - A) Yes
 - B) No

Test your knowledge

- Is Documentation required for all attest functions?
 - A) Yes
 - B) No

Important disclosure regarding audit trail in 2022-2023 audit report

It is one of the takeaways of the day's session.
Wait patiently till the end.

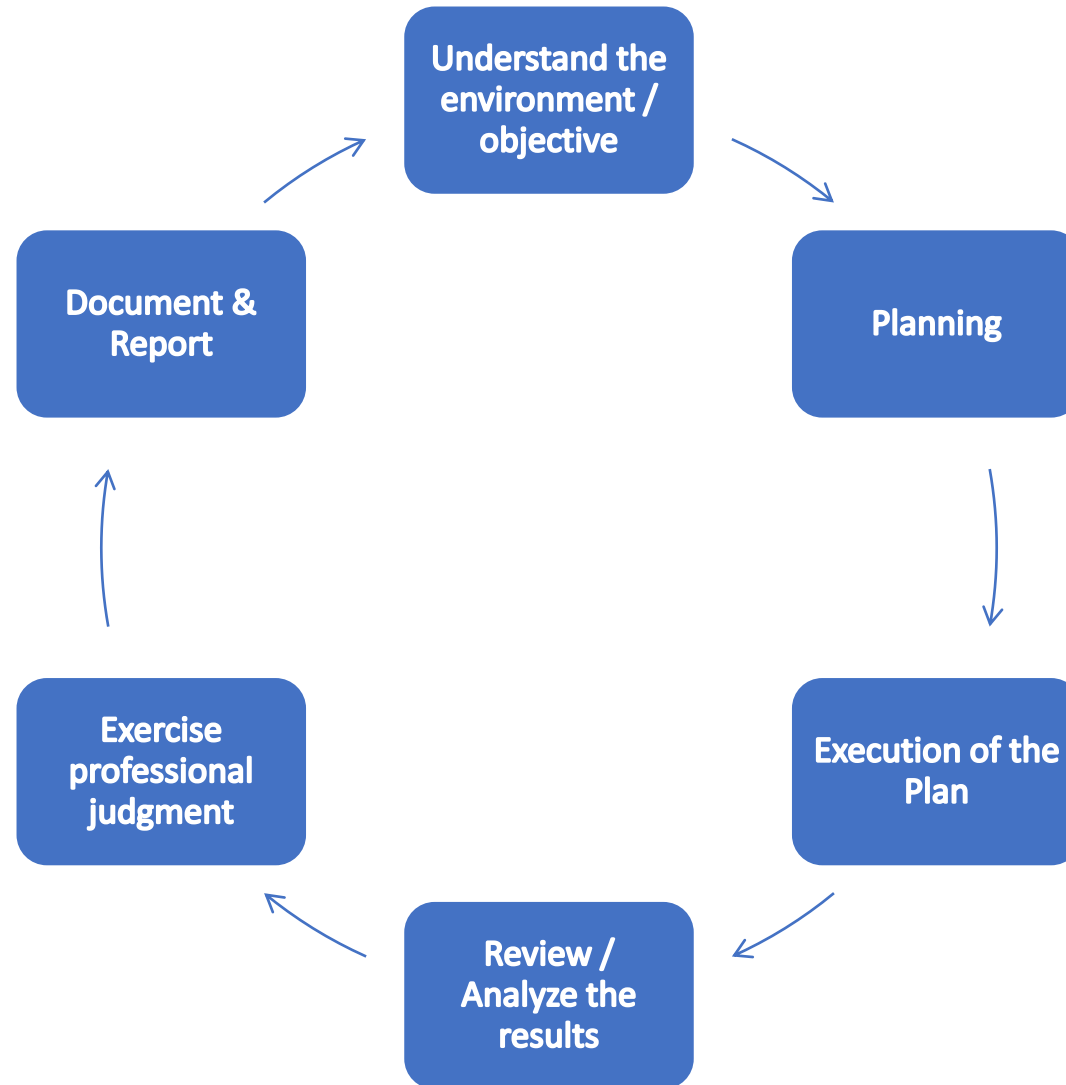
What is the difference between report and certificate? - Report

- An audit report is a formal document issued by an independent auditor or audit firm upon the completion of an audit engagement. It provides an opinion or assessment regarding the financial statements, internal controls, and compliance with applicable laws and regulations of an organization. -
Limited Assurance – True & Fair

What is the difference between report and certificate? - Certificate

- The level of assurance provided in an auditor's certificate is determined by the nature of the engagement, the criteria or assertions being examined, the procedures performed by the auditor, and the auditor's professional judgment. The certificate serves as a means of communicating the auditor's conclusion or opinion to the intended users, providing them with an understanding of the reliability or accuracy of the subject matter specified in the certificate.
- True & Correct

Audit process



Types of Basic Audit Report

- Audit conclusions on general purpose financial statements are to be framed in accordance to SA 700 to SA 799
- As of date 6 types of situations are addressed by above standards – Only 6 standards are issued
- SA 700 – Opinion on Financial Statements
- SA 701 – Key audit matters - KAM
- SA 705 – Modified opinion
- SA 706 – Emphasis of matter
- SA 710 – Comparative information
- SA 720 – Responsibilities regarding other information

SA 700 – Opinion on financial statements

- This SA applies to an audit of a complete set of general-purpose financial statements and is written in that context.
- The requirements of this SA are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally and the need to increase the value of auditor reporting by making the information provided in the auditor's report more relevant to users.
- General purpose financial statements – Financial statements prepared in accordance with a general-purpose framework.

To form an opinion after evaluating

- The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgment

Areas of focus

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

Fair presentation framework

The overall presentation, structure and content of the financial statements; and

Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation

The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework

Fair presentation framework – compliance framework

- Fair Presentation Framework: Financial statements prepared under the fair presentation framework focus on presenting a true and fair view of the company's financial position, financial performance, and cash flows. The fair presentation framework is guided by the concept of materiality, relevance, and faithful representation of financial information.
- Compliance Framework: Financial statements prepared under the compliance framework are primarily focused on adhering to specific regulatory requirements or accounting standards. In India, the compliance framework is based on the Indian Accounting Standards (Ind AS) or Accounting Standards (AS) issued by the Institute of Chartered Accountants of India (ICAI).

Form of opinion

- The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- If the auditor
 - concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
 - is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement
 - Shall modify the opinion (SA 705)

Auditors report - contents

- Title – report of Independent Auditor
- Addressee
- Management responsibility
- Auditors' responsibility
- Basis of opinion
- Auditors' opinion

Basis of opinion

- 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*; (Ref: Para. A29–A34)
- 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

- This is the basic assumption of preparation of financial statements.
- Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so
- Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant (e.g., the going concern basis of accounting is not relevant for some financial statements prepared on a tax basis).

Entity situation is deteriorating

Scenario	No significant doubts about going concern	Significant doubts about going concern but mitigating actions judged sufficient to make going concern appropriate Entity determines no material uncertainties	Significant doubts about going concern but mitigating actions judged sufficient to make going concern appropriate Material uncertainties about going concern remain after considering mitigating actions	Intends to liquidate or to cease trading, or no realistic alternative but to do so
Basis of Preparation	Going Concern Basis			Alternate Basis – not going concern
Disclosure	Basis of preparation No specific disclosures	Basis of preparation Significant judgements? <small>2023 June 19 CA.G. Ganesh ca.g.ganesh@gmail.com 9391043877 ICAI Hyderabad</small>	Basis of preparation Material uncertainties Significant judgements?	Limited specific requirements

Objectives of audit

- Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- Issue an auditor's report that includes the auditor's opinion
- State that 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; and
- State that misstatements can arise from fraud or error, and either:
 - (i) Describe that they 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
 - (ii) Provide a definition or description of materiality in accordance with the applicable financial reporting framework

SA 700 gives various formats of reports

1. An Auditor's report on **financial statements of a listed company** prepared in accordance with a fair presentation framework.
2. Auditor's report on **consolidated financial statements** of a listed company prepared in accordance with a fair presentation framework.
3. An Auditor's report on **financial statements of an unlisted company** prepared in accordance with a fair presentation framework.
4. An Auditor's report on **financial statements of a non-corporate entity** prepared in accordance with a **fair presentation framework**.
5. An Auditor's report on **financial statements of a non-corporate entity** prepared in accordance with a **general purpose compliance framework**.

SA 705- Modification of opinion in Independent Auditors Report Circumstances

- 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.

Types of modified opinion- Qualified Opinion

- 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.

Types of modified opinion- 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.

Types of modified opinion- Disclaimer of opinion

- 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.
- 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.

Key audit matters - KAM – SA 701

- Key audit matters (KAMs) are those matters that, in the auditor's professional judgment, were of most significance during the audit. KAMs represent the areas of the audit that required the highest attention, involved significant management judgment, or presented complex or contentious issues. These matters are typically communicated in the audit report to enhance transparency and provide users with insights into the areas where the auditor focused their efforts. KAMs provide specific information about the audit procedures, findings, and conclusions related to those significant matters.

Key audit matters

- The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:
- Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315 (Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment)
- Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty
- The effect on the audit of significant events or transactions that occurred during the period. - Linked to documentation

Key audit matters - documentation

- The matters that required significant auditor attention as determined in accordance with paragraph 9, and the rationale for the auditor's determination
- Where applicable, the rationale for the auditor's determination that there are no key audit matters to communicate in the auditor's report
- Where applicable, the rationale for the auditor's determination not to communicate in the auditor's report a matter determined to be a key audit matter.
- Paragraph 8 of SA 230 requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand, among other things, significant professional judgments.

Circumstances where KAM are not communicated

- Law or regulation precludes public disclosure about the matter
- In extremely rare circumstances, the auditor determines that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. This shall not apply if the entity has publicly disclosed information about the matter.

Emphasis of matter – SA 706

- The emphasis of matter section draws attention to specific matters that are appropriately presented or disclosed in the financial statements but are of such importance that the auditor believes they need to be highlighted to the users of the financial statements. These matters could include significant uncertainties, going concern issues, changes in accounting policies, or other relevant information that may impact the users' understanding of the financial statements. The emphasis of matter section does not affect the auditor's opinion but provides additional context or explanations.

SA 706 on emphasis of matter

- **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**
- **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**

Circumstances in Which an Emphasis of Matter Paragraph May Be Necessary

- 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 SA 560).

An Emphasis of Matter paragraph is not a substitute for

- A modified opinion in accordance with SA 705 (Revised) when required by the circumstances of a specific audit engagement
- 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
- Reporting in accordance with SA 570 (Revised)⁸ 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.

List of SAs Containing Requirements for Emphasis of Matter Paragraphs / Other Matter

- SA 210, Agreeing the Terms of Audit Engagements – paragraph 19(b).
- SA 560, Subsequent Events – paragraphs 12(b) and 16. other matters
- SA 800, Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks – paragraph 14.
- SA 710, Comparative Information—Corresponding Figures and Comparative Financial Statements – paragraphs 13–14, 16–17 and 19.

Specialized areas 800-805-810

- SA 800 – This standard addresses how we approach and report when the financial statements are prepared in accordance with special purpose framework.
- SA 805 - Deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement.
- SA 810 – Summary financial statements – from audited financial statements

Special purpose framework

- Special purpose framework – A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework
- Summary financial statements – Historical financial information that is derived from financial statements but that contains less detail than the financial statements, while still providing a structured representation consistent with that provided by the financial statements of the entity's economic resources or obligations at a point in time or the changes therein for a period of time.

Standards of review engagements

- SRE 2400 – review of financial statements by a person other than entity's auditor
- SRE 2410 – review of interim financial statements by the entity's auditors
- These reviews give a limited assurance and are significantly less than the regular audit assurance.
- These reports are based on certain legal requirements such as Listing Obligations & Disclosure requirement (LODR)

The examination of prospective financial information – SAE 3400

In an engagement to examine prospective financial information, the auditor should obtain sufficient appropriate evidence as to whether:

(a) management's best-estimate assumptions on which the prospective financial information is based are not unreasonable and, in the case of hypothetical assumptions, such assumptions are consistent with the purpose of the information;

(b) the prospective financial information is properly prepared on the basis of the assumptions;

The examination of prospective financial information – SAE 34002

- (c) the prospective financial information is properly presented and all material assumptions are adequately disclosed, including a clear indication as to whether they are best-estimate assumptions or hypothetical assumptions; and(
- d) the prospective financial information is prepared on a consistent basis with historical financial statements, using appropriate accounting principles.

Definitions

“*Prospective financial information*” means financial information based on assumptions about events that may occur in the future and possible actions by an entity. It is highly subjective in nature and its preparation requires the exercise of considerable judgment. Prospective financial information can be in the form of a forecast, a projection, or a combination of both, for example, a one year forecast plus a five year projection.

A “*forecast*” means prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions management expects to take as of the date the information is prepared (best-estimate assumptions).

Projection - meaning

- A “projection” means prospective financial information prepared on the basis of:

(a) hypothetical assumptions about future events and management actions which are not necessarily expected to take place, such as when some entities are in a start-up phase or are considering a major change in the nature of operations; or

(b) a mixture of best-estimate and hypothetical assumptions.

Such information illustrates the possible consequences as of the date the information is prepared if the events and actions were to occur (a “what-if” scenario).

Documentation – SAE 3400

The auditor should document matters, which are important in providing **evidence to support his report** on examination of prospective financial information, and evidence that such examination was carried out in accordance with this SAE. **The working papers** will include the **sources of information, basis of forecasts and the assumptions made in arriving the forecasts, hypothetical assumptions, evidence supporting the assumptions, management representations** regarding the intended use and distribution of the information, completeness of material assumptions, **management's acceptance** of its responsibility for the information, **audit plan, the nature, timing and extent of examination procedures performed**, and, in case the auditor **expresses a modified opinion or withdraws from the engagement, the reasons forming the basis of such decision.**

Prospective financial information - Reporting

- (a) Title;
- (b) Addressee;
- (c) Identification of the prospective financial information;
- (d) Reference to the Standards on Auditing applicable to the examination of prospective financial information;
- (e) Statement that management is responsible for the prospective financial information including the underlying assumptions;
- (f) When applicable, a reference to the purpose and/or restricted distribution of the prospective financial information;

Prospective financial information – Reporting..

- (g) Statement that the examination procedures included examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the forecast or projection;
- (h) Statement of negative assurance as to whether the assumptions provide a reasonable basis for the prospective financial information;
- (i) Opinion as to whether the prospective financial information is properly prepared on the basis of the assumptions and is presented in accordance with the relevant financial reporting framework;
- (j) Appropriate caveats concerning the achievability of the results indicated by the prospective financial information;

Revisiting test your knowledge

- To what type of entities audit reports are issued?
 - A) Corporates
 - B) Non Corporates
 - C) All types of financial statements which are attested by Chartered Accountants.
 - D) A & B
 - E) A, B & C

Answer : C

Revisiting test your knowledge

- How many types of Audit reports are there?
 - A) One
 - B) Two
 - C) Three.
 - D) More than three depends on assignment

Answer D

Revisiting test your knowledge

- Can we issue audit report for prospective / forecasts?
information?
 - A) Yes
 - B) No

Yes – Should be in accordance with SAE 3400

test your knowledge

- Is Documentation required for all attest functions?
 - A) Yes
 - B) No

Yes – SA 230 – Documentation

In my opinion Documentation covers and requires compliance of all Engagement and Assurance Standards if your documentation is **true and correct** you have done the audit properly.

Important disclosure regarding audit trail in 2022-2023 Audit Report

Rule 11(g) of the Companies (Audit and Auditors) Amendment Rules 2021 casts the responsibility of reporting on Audit Trail.

As auditors we need report on the existence of audit trail which is effective for audit periods commencing April 2022.

However, Rule 3(1) of Companies (Accounts) Rules 2014 require the maintenance of Audit Trail only from Financial year beginning 2023.

To address the issue a paragraph in main audit report is to be included as under

As proviso to rule 3(1) of the Companies (Accounts) Rules, 2014 is applicable for the Company only with effect from 1st April, 2023, reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014 is not applicable..

Questions

Audit Reports & Documentation



Thanks for your
time

Audit Reports & Documentation

