

SA-700 FORMING AN OPINION AND REPORTING ON THE FINANCIAL STATEMENTS

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OPINIONS

- TRUE ✓ 😊
- FALSE ✗ 😞
- CAN'T SAY ? 😐

OPINIONS

- SUBJECT MATTER
- CRITERIA
- EVIDENCE
- REPORT
- RESPONSIBLE PARTY
- INTENDED USERS

THIRD PARTY'S OPINION

AS A BASIS
FOR
ASSURANCE

QUALITIES EXPECTED OF A PRACTITIONER

- Appropriate skills and Knowledge
- Ethical Considerations:
 - Integrity
 - Objectivity
 - Professional Competence & Due Care
 - Confidentiality
 - Professional Behavior
- Independence

ASSURANCE ENGAGEMENT

- Practitioner
- Expresses A Conclusion
- Enhance The Degree of Confidence
of Intended Users other than the Responsible Party
- about Outcome of the Evaluation or Measurement of a Subject Matter against Relevant Criteria.

ASSURANCE ENGAGEMENTS

- Reasonable Assurance Engagement
- Limited Assurance Engagement

DEFINITION OF AUDIT

- Statement on Auditing Practices (1964,1968,1977)
- Statement on Standard Auditing Practices SAP-1 (Basic Principles Governing an Audit (1985)
- SA 200 –Over all objectives of the Independent Auditor (2010)

Definition of Audit under SAP-1

- Independent Examination
- of Financial Information of an entity
- whether profit oriented or not
- irrespective of its size or legal form
- with a view to express an opinion thereon.

Objective of an Audit under SAP-2

To enable an auditor to express his opinion on the financial statements .which are prepared within a framework of recognised accounting policies and procedures and relevant statutory requirements.

Responsibility regarding Discovery of Fraud

Under SAP -2 (withdrawn effective 31-03-2010)

- The discovery of a material misstatement is not the main objective of audit nor is the auditors' program of work specifically designed for such discovery.

Reference of other standards on Auditing under old SAP-1

- Other statements on Standard Auditing practices to be issued by the institutes will elaborate on the principles set out herein to give procedure and
- SAP -1 Stands Withdrawn for Audit of financial Statement effective 01.04.2010.

AUDIT UNDER THE NEW FRAME WORK i.e. SA 200

- Audit –Not defined.
- Purpose of an Audit is to enhance the degree of confidence of intended users in the financial statements.
- This is achieved by an expression of an opinion by the Auditor on whether the financial statement are prepared in all material respects in accordance with an applicable financial reporting framework.

AUDIT UNDER THE NEW FRAME WORK i.e. SA 200

- An Audit conducted accordance with SAS and relevant ethical requirements enable the auditors to form the opinion.

AUDIT UNDER SA 200

- Audit is a Reasonable Assurance engagement
- As the basis for the auditors opinion the SA's require
the auditors to obtain reasonable assurance that the financial statements are not materially misstated.
- Reasonable Assurance is obtained when auditor obtain sufficient appropriate evidence that reduce audit risk to an acceptable low level.

AUDIT UNDER SA 200

- Audit Risk is the Risk of Expressing an inappropriate opinion when the financial statement are materially misstated.
- Possible opinions are
 - Unmodified (SA-700)
 - Modified (SA-705)
 - Qualified Opinion
 - Adverse Opinion
 - A Disclaimer of Opinion

(An Emphasis of Matter paragraph as per SA 706 is not an opinion)

Audit under SA- 200

Over all Objectives of the Independent Auditor

- To obtain reasonable assurance whether financial statement free from material misstatements due to fraud or errors.



- Enables the auditor to form an opinion whether the financial statements are prepared in all material aspects in accordance with the applicable financial reporting standards .



- To report on the financial statement and communicate as required by the SAs in accordance with the auditor's findings.

Audit under SA-200

Compliance with SA's Relevant to Audit

- The Auditors Shall comply with all SA's relevant to Audit .
- SA is relevant if it is in effect and circumstances addressed by the SA exist.
- The Auditor shall have an understanding of the text of an SA including its application and other explanatory material
(To understand the objectives and apply the requirements properly)
- The Auditor shall not represent compliance with SA's in the auditor's report unless the auditor has complied with SA 200 and all other SA's relevant in the audit.

Forming an Opinion and Reporting on Financial Statements

- Scope and purpose of SA 700
- Forming an opinion (Process of)
- Form of Opinion
- Auditor's Report

Scope of SA 700

SCOPE

- Auditors responsibility to form an opinion
- Form and Content of the Auditors Report (Other than modified)

CONTEXT

- General Purpose Financial Statement framework
(A Financial reporting framework designed to meet financial needs of a wide range of users)

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Purpose of SA 700

Consistency in the Auditors Report

- Promotes credibility of the Audit
- Helps Users Understanding
- Helps users to identify Unusual Circumstances when they occur.

Forming an Opinion

- Auditor shall form an opinion whether the financial statements are prepared in all material aspects in accordance with the applicable financial reporting framework
- In order to form this opinion, the auditor shall conclude as to whether he has obtained reasonable assurance as to whether the financial statements are free from material misstatements whether due to fraud or errors.

INPUTS TO THE OPINION

- CONCLUDE

- ✓ Whether sufficient appropriate audit evidence has been obtained in accordance with SA 330
- ✓ whether uncorrected misstatements are material, individually or in the aggregate

- EVALUATE

Qualitative aspects of entity accounting policies including indicators of possible bias in management judgement.

INPUTS TO THE OPINION

Evaluate against the requirements of applicable
Financial reporting framework

- Whether F.S adequately disclose the significant accounting policies selected and applied
- Consistency of these accounting policies with the applicable financial reporting framework and whether appropriate

INPUTS TO THE OPINION

- Accounting estimates made by management are reasonable
- Information presented in the financial statements are relevant, reliable, comparable and understandable
- Adequacy of disclosure for users to understand the effect of transactions and events
- Appropriation of the terminology used in the financial statements including the title of each financial statement is appropriate.

INPUTS TO THE OPINION

Whether the financial statements have achieved fair presentation.

- ✓ Overall presentation , structure and content of the financial statements.
- ~~✓ Whether the financial statements ,including the related notes, represent the underlying transaction and events in a manner that achieves fair presentation.~~

Whether the financial statements adequately refer to or describe the applicable financial reporting framework.

FORMS OF OPINION

UNMODIFIED OPINION

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

MODIFIED OPINION

- When auditor concludes F S as a whole are not free from material misstatements.
- Unable to obtain sufficient , appropriate audit evidence that the FS as a whole are free from material misstatement.

ISSUES IN FURNISHING AN OPINION

Financial Statements Comply with the applicable fair presentation frame work but do not achieve fair presentation.

REQUIREMENTS IN AUDITORS REPORT UNDER SA -700

1. It shall be in writing.
2. It should have a title “ Report of an Independent Auditor”
3. It should have an Addressee.
4. Introductory Paragraph.
5. Management’s Responsibilities Section.
6. Auditors Responsibilities Section .
7. Opinion Paragraph.
8. Other Reporting Responsibilities Section
9. It should be signed.
10. It should be dated.
11. It should have a place of signature.

INTRODUCTORY PARAGRAPH

- ✓ Identify the Entity.
- ✓ State that the Financial Statements have been Audited.
- ✓ Identify the title of each financial statements that has been audited.
- ✓ Refer to the summary of significant accounting policies and other explanatory information.
- ✓ Specify the date or period covered by each of the financial statements.

MANAGEMENTS RESPONSIBILITY SECTION

- ✓ Section Title – Management or Board of Directors or [Appropriate Term]
- ✓ Describe Management's Responsibility for the preparation of the Financial Statements in the manner in which the responsibility is described in the terms of the audit engagement.
- ✓ Responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatement due to fraud or error.
- ✓ Responsibility for the preparation of financial statements that give a true and fair view.

AUDITOR'S RESPONSIBILITY SECTION

State that

- ✓ Responsibility to express an opinion on the financial statements based on the audit.
- ✓ Audit was conducted in accordance with the standards of Auditing of ICAI
- ✓ The Auditor's Report shall also explain that these Standards require that the Auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material mis-statements.

AUDITOR'S RESPONSIBILITY SECTION

- Audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
- Procedures selected depend on the Auditor's judgement including
 - Assessment of the risks of material mis-statements whether due to fraud or error
 - In making these risk assessment the Auditor considers internal control relevant to the entity preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the internal control.

AUDITOR'S RESPONSIBILITY SECTION

- An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Management.

AUDITOR'S RESPONSIBILITY SECTION

The Auditor's report shall state 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 .

OPINION SECTION

Section Title: “OPINION”

- ✓ Unmodified opinion unless otherwise required by law or regulation , use one of the following phrases :

The Financial Statements present fairly, in all material respects, in accordance with [the applicable financial reporting framework]

OR

The Financial Statements give a true and fair view in accordance with the applicable financial reporting framework.

- ✓ Applicable financial reporting framework shall be identified ,if it is not AS of ICAI or Companies Accounting Standards Rules, 2006 or Accounting Standards of ICAI for local bodies.

OTHER REPORTING RESPONSIBILITIES SECTION

Other Reporting Responsibilities are addressed in a separate section of the auditor's report in order to distinguish them from the SA s to report on the financial statements.

eg: CARO

Disqualification u/s 227(e) & (f)

DATE ,SIGNATURE ETC.,

Signature: Personal Name.

Membership No.

FRN No of the Firm.

Date:

1. Date up to which the Auditor has become aware of the events and transactions.

2. After financial statements have been duly prepared and Management has accepted responsibility for them duly supported by evidence of such approval. [Board Minutes]

Some Guidance from the Application and Other Explanatory Material

Description of the applicable financial reporting framework :

A description in the financial statements that the financial statements are prepared in accordance with a particular reporting framework is appropriate only if the financial statements comply in all material respects with the financial reporting framework that are effective during the period covered by the Financial Statements.

A description of the applicable financial reporting framework that contains imprecise quantifying or limiting language (eg: the Financial Statements are in substantial compliance with Financial Reporting Standards is not an adequate description of that framework as it may mislead users of the financial statements.

Some Guidance from the Application and Other Explanatory Material

Wording of auditor's opinion prescribed by law or regulation (eg: Tax Audit)

SA 210 requires the auditor to evaluate

- a) Whether users might misunderstand the assurance obtained.
- b) Whether additional explanation in the auditor's report can mitigate the possible misunderstanding.

Some Guidance from the Application and Other Explanatory Material

- ✓ Where written permission has been obtained from the Central Government , or a regulator or by order of a court of law having jurisdiction to make such an order , to prepare its financial statements without meeting specific recognition , measurement, presentation or disclosure requirements of the applicable financial reporting framework , such a change shall be treated as a modification of the financial reporting framework and not as an inability of the auditor to obtain sufficient appropriate audit evidence.
- ✓ If the effect is material the auditor shall describe in sufficient detail the deviation from the financial reporting framework in an emphasis of matter paragraph

Unaudited Supplementary Information presented with the financial statements

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Reference from auditors information to the unaudited information should be avoided.

Unaudited Notes should not be intermingled with audited notes.

Some Issues

- Using the work of another auditor
- Materiality
- Title of Report of the Branch Auditor

Preview of SA 705

- Basis for Modified Opinion Section
- Other Matters Section

Summary

- Audit is a Process
- Knowledge of all the applicable SAs required before signing the report
- Clear idea of Materiality
- The Report is a declaration by the auditor that the due process has been followed.