

Exposure Draft
Standard on Auditing (SA) 700 (Revised)
Forming an Opinion and Reporting on Financial Statements

Your comments on the Exposure Draft should reach us by July 31, 2009. Comments are most helpful if they indicate the specific paragraph(s) to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording. The comments should be sent to:

Secretary, Auditing and Assurance Standards Board
The Institute of Chartered Accountants of India
ICAI Bhawan, C-1, Sector-1,
NOIDA,
Uttar Pradesh – 201 301.

Comments can also be e-mailed at: aasb@icai.org

Exposure Draft
Standard on Auditing (SA) 700 (Revised)*
Forming an Opinion and Reporting on Financial Statements
(Effective for audits of financial statements for periods beginning on or after -----)

Contents

	Paragraph(s)
Introduction	
Scope of this SA	1-4
Effective Date	5
Objectives	6
Definitions	7-9
Requirements	
Forming an Opinion on the Financial Statements	10-15
Form of Opinion	16-19
Auditor's Report	20-45
Supplementary Information Presented with the Financial Statements	46-47
Application and Other Explanatory Material	
Qualitative Aspects of the Entity's Accounting Practices	A1-A3
Disclosure of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements	A4
Description of the Applicable Financial Reporting Framework	A5-A10
Form of Opinion	A11-A12
Auditor's Report	A13-A43
Supplementary Information Presented with the Financial Statements.....	A44-A50
Appendix: Illustrations of Auditors' Reports on Financial Statements	

Standard on Auditing (SA) 700 (Revised), "Forming an Opinion and Reporting on Financial Statements", should be read in the context of the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services¹," which sets out the authority of SAs and Proposed SA 200 (Revised), "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing²".

* Earlier known as SA 700 (AAS 28), "The Auditor's Report on Financial Statements".

¹ Published in the July, 2007 issue of the Journal.

² Presently, SA 200, "Basic Principles Governing an Audit" and SA 200A, "Objective and Scope of an Audit of Financial Statements" correspond to International Standard on Auditing (ISA) 200 (Revised and Redrafted). Both the SAs are currently being revised in the light of the ISA 200 (Revised and Redrafted). Post revision, the principles covered by SA 200 (AAS 1) and SA 200A (AAS 2) will be merged into one Standard, i.e., SA 200.

Introduction

Scope of this SA

1. This Standard on Auditing (SA) deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.
2. Proposed SA 705³ and Proposed SA 706⁴ deal with how the form and content of the auditor's report are affected when the auditor expresses a modified opinion or includes an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor's report.
3. This SA is written in the context of a complete set of general purpose financial statements. Proposed SA 800⁵ deals with special considerations when financial statements are prepared in accordance with a special purpose framework. Proposed SA 805⁶ 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.
4. This SA promotes consistency in the auditor's report. Consistency in the auditor's report, when the audit has been conducted in accordance with SAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognised standards. It also helps to promote the user's understanding and to identify unusual circumstances when they occur.

Effective Date

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

Objectives

6. The objectives of the auditor are to:
 - (a) Form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and
 - (b) Express clearly that opinion through a written report that also describes the basis for the opinion.

Definitions

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

³ Proposed SA 705, "Modifications to the Opinion in the Independent Auditor's Report". The Exposure Draft of SA 705 is published elsewhere in this issue of the Journal.

⁴ Proposed SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report". The Exposure Draft of SA 706 is published elsewhere in this issue of the Journal.

⁵ The Auditing and Assurance Standards Board (AASB) has already undertaken a project to formulate the proposed SA 800 corresponding to International Standard on Auditing (ISA) 800 (Revised and Redrafted), "Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks".

⁶ The Auditing and Assurance Standards Board (AASB) has already undertaken a project to formulate the proposed SA 805 corresponding to International Standard on Auditing (ISA) 805 (Revised and Redrafted), "Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement".

Exposure Draft of Revised SA 320

- (a) General purpose financial statements – Financial statements prepared in accordance with a general purpose framework⁷.
- (b) General purpose framework – A financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.

The term “fair presentation framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

- (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above⁸.

- (c) Unmodified opinion – The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework⁹.

8. Reference to “financial statements” in this SA means “a complete set of general purpose financial statements, including the related notes.” The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial statements, and what constitutes a complete set of financial statements.

⁷ Paragraph 3.4 of the Revised Preface to the Statements of Accounting Standards issued by the Institute of Chartered Accountants of India in 2004 states as follows:

“The term “General Purpose Financial Statements” includes balance sheet, statement of profit and loss, a cash flow statements (wherever applicable) and statements and explanatory notes which form part thereof, issued for the use of various stakeholders, Governments and their agencies and the public.....”

⁸ Presently, SA 200, “Basic Principles Governing an Audit” and SA 200A, “Objective and Scope of an Audit of Financial Statements” correspond to International Standard on Auditing (ISA) 200 (Revised and Redrafted), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing”. Both the SAs are currently being revised in the light of the ISA 200 (Revised and Redrafted). Post revision, the principles covered by SA 200 (AAS 1) and SA 200A (AAS 2) will be merged into one Standard, i.e., SA 200. Paragraph 13(a) of ISA 200 states as follows:

“(a) Applicable financial reporting framework – The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation and presentation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

The term “fair presentation framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

- (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above”.

⁹ Paragraphs 35-36 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

Forming an Opinion and Reporting on Financial Statements

9. Reference to “Financial Reporting Standards” in this SA means the Accounting Standards promulgated by the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) or Accounting Standards, notified by the Central Government by publishing the same as the Companies (Accounting Standards) Rules, 2006, or the Accounting Standards for Local Bodies promulgated by the Committee on Accounting Standards for Local Bodies (CASLB) of the Institute of Chartered Accountants of India, as may be applicable.

Requirements

Forming an Opinion on the Financial Statements

10. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.^{10 & 11}

11. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:

- (a) The auditor’s conclusion, in accordance with SA 330, whether sufficient appropriate audit evidence has been obtained;¹²
- (b) The auditor’s conclusion, in accordance with SA 450, whether uncorrected misstatements are material, individually or in aggregate;¹³ and
- (c) The evaluations required by paragraphs 12-15.

12. 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

¹⁰ Presently, SA 200, “Basic Principles Governing an Audit” and SA 200A, “Objective and Scope of an Audit of Financial Statements” correspond to International Standard on Auditing (ISA) 200 (Revised and Redrafted). Both the SAs are currently being revised in the light of the ISA 200 (Revised and Redrafted). Post revision, the principles covered by SA 200 (AAS 1) and SA 200A (AAS 2) will be merged into one Standard, i.e., SA 200. ISA 200 (Revised and Redrafted), paragraph 11 states as follows:

“11. In conducting an audit of financial statements, the overall objectives of the auditor are:

- (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
- (b) To report on the financial statements, and communicate as required by the ISAs, in accordance with the auditor’s findings”.

¹¹ Paragraphs 35-36 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework, respectively.

¹² SA 330, “The Auditor’s Responses to Assessed Risks,” paragraph 27.

¹³ The proposed SA 450 has been approved by the Board for placing the same for the consideration of the Council. Paragraph 11 of the Exposure Draft (published in January 2009 issue of the Journal) of the SA 450, “Evaluation of Misstatements Identified during the Audit,” states as follows:

“11. The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider:

- (a) The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence; and (Ref: Para. A13-A17, A19-A20)
- (b) The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. (Ref: Para. A18)”.

Exposure Draft of Revised SA 320

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

13. In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:

- (a) The financial statements adequately disclose the significant accounting policies selected and applied;
- (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
- (c) The accounting estimates made by management are reasonable;
- (d) The information presented in the financial statements is relevant, reliable, comparable and understandable;
- (e) 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 (Ref: Para. A4)
- (f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

14. When the financial statements are prepared in accordance with a fair presentation framework, the evaluation required by paragraphs 12-13 shall also include whether the financial statements achieve fair presentation. The auditor's evaluation as to whether the financial statements achieve fair presentation shall include consideration of:

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

15. The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. (Ref: Para. A5-A10)

Form of Opinion

16. 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.

17. If the auditor:

- (a) concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- (b) is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor shall modify the opinion in the auditor's report in accordance with proposed SA 705.

Forming an Opinion and Reporting on Financial Statements

18. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor shall discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, shall determine whether it is necessary to modify the opinion in the auditor's report in accordance with SA 705. (Ref: Para. A11)

19. When the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation. However, if in extremely rare circumstances the auditor concludes that such financial statements are misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report. (Ref: Para. A12)

Auditor's Report

20. The auditor's report shall be in writing. (Ref: Para. A13-A14)

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

Title

21. The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor. (Ref: Para. A15)

Addressee

22. The auditor's report shall be addressed as required by the circumstances of the engagement. (Ref: Para. A16)

Introductory Paragraph

23. The introductory paragraph in the auditor's report shall: (Ref: Para. A17-A19)

- (a) Identify the entity whose financial statements have been audited;
- (b) State that the financial statements have been audited;
- (c) Identify the title of each statement that comprises the financial statements;
- (d) Refer to the summary of significant accounting policies and other explanatory information; and
- (e) Specify the date or period covered by each financial statement comprising the financial statements.

Management's Responsibility for the Financial Statements

24. This section of the auditor's report describes the responsibilities of those in the organisation that are responsible for the preparation of the financial statements. The auditor's report need not refer specifically to "management," but shall use the term that is appropriate in the context of the legal and/or regulatory framework applicable to the entity. In case of some entities, the appropriate reference may be to those charged with governance*.

25. The auditor's report shall include a section with the heading "Management's [or other appropriate term]

* For example, the Board of Directors under the Companies Act, 1956.

Exposure Draft of Revised SA 320

Responsibility for the Financial Statements.”

26. The auditor’s report shall describe management’s responsibility for the preparation of the financial statements in the manner in which that responsibility is described in the terms of the audit engagement. The description shall include an explanation that management is responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework; this responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. (Ref: Para. A20-A22)

27. Where the financial statements are prepared in accordance with a fair presentation framework, the explanation of management’s responsibility for the financial statements in the auditor’s report shall refer to “the preparation and fair presentation of these financial statements” or “the preparation of financial statements that give a true and fair view,” as appropriate in the circumstances.

Auditor’s Responsibility

28. The auditor’s report shall include a section with the heading “Auditor’s Responsibility.”

29. The auditor’s report shall state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit. (Ref: Para. A23)

30. The auditor’s report shall state that the audit was conducted in accordance with Standards on Auditing issued by the Institute of Chartered Accountants of India. The auditor’s report shall also explain that those Standards require that the auditor comply with ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. (Ref: Para. A24-A25)

31. The auditor’s report shall describe an audit by stating that:

(a) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements;

(b) The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor’s consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control; and

(c) An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements.

32. Where the financial statements are prepared in accordance with a fair presentation framework, the description of the audit in the auditor’s report shall refer to “the entity’s preparation and fair presentation of the financial statements” or

Forming an Opinion and Reporting on Financial Statements

"the entity's preparation of financial statements that give a true and fair view," as appropriate in the circumstances.

33. 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.

Auditor's Opinion

34. The auditor's report shall include a section with the heading "Opinion."

35. When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent: (Ref: Para. A26-A32)

(a) The financial statements present fairly, in all material respects, in accordance with [the applicable financial reporting framework]; or

(b) The financial statements give a true and fair view of in accordance with [the applicable financial reporting framework].

36. When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework]. (Ref: Para. A26, A28-A32)

37. If the reference to the applicable financial reporting framework, in the auditor's opinion, is not to the Accounting Standards promulgated by the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) or Accounting Standards, notified by the Central Government by publishing the same as the Companies (Accounting Standards) Rules, 2006, or the Accounting Standards for Local Bodies promulgated by the Committee on Accounting Standards for Local Bodies (CASLB) of the Institute of Chartered Accountants of India, as may be applicable, the auditor's opinion shall identify the jurisdiction of origin of the framework.

Other Reporting Responsibilities

38. If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibility under the SAs to report on the financial statements, these other reporting responsibilities shall be addressed in a separate section in the auditor's report that shall be sub-titled "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section. (Ref: Para. A33-A34)

39. If the auditor's report contains a separate section on other reporting responsibilities, the headings, statements and explanations referred to in paragraphs 23-37 shall be under the sub-title "Report on the Financial Statements." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Financial Statements." (Ref: Para. A35)

Signature of the Auditor

40. The auditor's report shall be signed. (Ref: Para. A36)

Date of the Auditor's Report

Exposure Draft of Revised SA 320

41. 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: (Ref: Para. A37-A40)

- (a) All the statements that comprise the financial statements, including the related notes, have been prepared; and
- (b) Those with the recognised authority have asserted that they have taken responsibility for those financial statements.

Place of Signature

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

Auditor's Report Prescribed by Law or Regulation

43. If the auditor is required by any law or regulation 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, each of the following elements: (Ref: Para. A41)

- (a) A title;
- (b) An addressee, as required by the circumstances of the engagement;
- (c) An introductory paragraph that identifies the financial statements audited;
- (d) A description of the responsibility of management (or other appropriate term, see paragraph 24) for the preparation of the financial statements;
- (e) A description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit, that includes:
 - A reference to Standards on Auditing and the law or regulation; and
 - A description of an audit in accordance with those Standards;
- (f) An opinion paragraph containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the jurisdiction of origin of the financial reporting framework, see paragraph 37);
- (g) The auditor's signature;
- (h) The date of the auditor's report; and
- (i) The place of signature.

Auditor's Report for Audits Conducted in Accordance with Both Auditing Standards issued by the Institute of Chartered Accountants of India and International Standards on Auditing

44. An auditor may be required to conduct an audit in accordance with the auditing Standards issued by the Institute of Chartered Accountants of India (the "national auditing standards"), but may additionally have complied with the

Forming an Opinion and Reporting on Financial Statements

International Standards on Auditing (ISAs) in the conduct of the audit. If this is the case, the auditor's report may refer to International Standards on Auditing in addition to the national auditing standards, but the auditor shall do so only if: (Ref: Para. A42-A43)

- (a) There is no conflict between the requirements in the national auditing standards and those in ISAs that would lead the auditor (i) to form a different opinion, or (ii) not to include an Emphasis of Matter paragraph that, in the particular circumstances, is required by ISAs; and
- (b) The auditor's report includes, at a minimum, each of the elements set out in paragraph 43(a)-(i) when the auditor uses the layout or wording specified by the national auditing standards. Reference to law or regulation in paragraph 43(e) shall be read as reference to the national auditing standards. The auditor's report shall thereby identify such national auditing standards.

45. When the auditor's report refers to both the national auditing standards and International Standards on Auditing, the auditor's report shall identify the national auditing standards being the Standards on Auditing issued by the Institute of Chartered Accountants of India.

Supplementary Information Presented with the Financial Statements (Ref: Para. A44-A50)

46. If supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether such supplementary information is clearly differentiated from the audited financial statements. If such supplementary information is not clearly differentiated from the audited financial statements, the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall explain in the auditor's report that such supplementary information has not been audited.

47. Supplementary information that is not required by the applicable financial reporting framework but is nevertheless an integral part of the financial statements because it cannot be clearly differentiated from the audited financial statements due to its nature and how it is presented shall be covered by the auditor's opinion.

Application and Other Explanatory Material

Qualitative Aspects of the Entity's Accounting Practices (Ref: Para. 12)

A1. Management makes a number of judgments about the amounts and disclosures in the financial statements.

A2. SA 260 (Revised) contains a discussion of the qualitative aspects of accounting practices¹⁴. In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that the cumulative effect of a lack of neutrality, together with the effect of uncorrected misstatements, causes the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the auditor's evaluation of whether the financial statements as a whole are materially misstated include the following:

¹⁴ SA 260 (Revised), "Communication with Those Charged with Governance," Appendix.

Exposure Draft of Revised SA 320

- The selective correction of misstatements brought to management's attention during the audit (e.g., correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings).
- Possible management bias in the making of accounting estimates.

A3. SA 540 (Revised) addresses possible management bias in making accounting estimates¹⁵. Indicators of possible management bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor's evaluation of whether the financial statements as a whole are free from material misstatement.

Disclosure of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements (Ref: Para. 13(e))

A4. It is common for financial statements prepared in accordance with a general purpose framework to present an entity's Balance Sheet, Statement of Profit and Loss and Cash Flow Statement. In such circumstances, the auditor evaluates whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the entity's financial position, financial performance and cash flows.

Description of the Applicable Financial Reporting Framework (Ref: Para. 15)

A5. As explained in proposed SA 200 (Revised), management and, where appropriate, those charged with governance have responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework and for an adequate description of that framework in the financial statements¹⁶. That

¹⁵ SA 540 (Revised), "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures," paragraph 21.

¹⁶ Presently, SA 200, "Basic Principles Governing an Audit" and SA 200A, "Objective and Scope of an Audit of Financial Statements" correspond to International Standard on Auditing (ISA) 200 (Revised and Redrafted), "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing". Both the SAs are currently being revised in the light of the ISA 200 (Revised and Redrafted). Post revision, the principles covered by SA 200 (AAS 1) and SA 200A (AAS 2) will be merged into one Standard, i.e., SA 200. ISA 200 (Revised and Redrafted), paragraphs A2-A3 state as follows:

"A2. An audit in accordance with ISAs is conducted on the premise that management and, where appropriate, those charged with governance have responsibility:

(a) For the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework; this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; and

(b) To provide the auditor with:

(i) All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements;

(ii) Any additional information that the auditor may request from management and, where appropriate, those charged with governance; and

(iii) Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.

A3. As part of their responsibility for the preparation and presentation of the financial statements, management and, where appropriate, those charged with governance are responsible for:

- The identification of the applicable financial reporting framework, in the context of any relevant laws or regulations.
- The preparation and presentation of the financial statements in accordance with that framework.
- An adequate description of that framework in the financial statements.
- The preparation of the financial statements requires management to exercise judgment in making accounting estimates that are reasonable in the circumstances, as well as to select and apply appropriate accounting policies. These judgments are made in the context of the applicable financial reporting framework".

Forming an Opinion and Reporting on Financial Statements

description is important because it advises users of the financial statements of the framework on which the financial statements are based.

A6. A description that the financial statements are prepared in accordance with a particular applicable financial reporting framework is appropriate only if the financial statements comply with all the requirements of that framework that are effective during the period covered by the financial statements.

A7. A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (e.g., “the financial statements are in substantial compliance with Financial Reporting Standards¹⁷”) is not an adequate description of that framework as it may mislead users of the financial statements.

Reference to More than One Financial Reporting Framework

A8. In some cases, the financial statements may represent that they are prepared in accordance with two financial reporting frameworks (e.g., the national framework and International Financial Reporting Standards). This may be because management is required, or has chosen, to prepare the financial statements in accordance with both frameworks, in which case both are applicable financial reporting frameworks. Such description is appropriate only if the financial statements comply with each of the frameworks individually. To be regarded as being prepared in accordance with both frameworks, the financial statements need to comply with both frameworks simultaneously and without any need for reconciling statements. In practice, simultaneous compliance is unlikely unless the jurisdiction has adopted the other framework (e.g., International Financial Reporting Standards) as its own national framework, or has eliminated all barriers to compliance with it.

A9. Financial statements that are prepared in accordance with one financial reporting framework and that contain a note or supplementary statement reconciling the results to those that would be shown under another framework, are not prepared in accordance with that other framework. This is because the financial statements do not include all the information in the manner required by that other framework.

A10. The financial statements may, however, be prepared in accordance with one applicable financial reporting framework and, in addition, describe in the notes to the financial statements the extent to which the financial statements comply with another framework (e.g., financial statements prepared in accordance with the national framework that also describe the extent to which they comply with International Financial Reporting Standards). Such description is supplementary financial information and, as discussed in paragraph 47, is considered an integral part of the financial statements and, accordingly, is covered by the auditor’s opinion.

Form of Opinion (Ref: Para. 18-19)

A11. There may be cases where the financial statements, although prepared in accordance with the requirements of a fair presentation framework, do not achieve fair presentation. Where this is the case, it may be possible for management to include additional disclosures in the financial statements beyond those specifically required by the framework or, in extremely rare circumstances, to depart from a requirement in the framework in order to achieve fair presentation of the financial statements.

¹⁷ Accounting Standards promulgated by the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) or Accounting Standards, notified by the Central Government by publishing the same as the Companies (Accounting Standards) Rules, 2006, or the Accounting Standards for Local Bodies promulgated by the Committee on Accounting Standards for Local Bodies (CASLB) of the Institute of Chartered Accountants of India, as may be applicable.

Exposure Draft of Revised SA 320

A12. It will be extremely rare for the auditor to consider financial statements that are prepared in accordance with a compliance framework to be misleading if, in accordance with proposed SA 210 (Revised), the auditor determined that the framework is acceptable¹⁸.

Auditor's Report (Ref: Para. 20)

A13. A written report encompasses reports issued in hard copy format and those using an electronic medium.

A14. The Appendix contains illustrations of auditors' reports on financial statements, incorporating the elements set forth in paragraphs 21-42.

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

Title (Ref: Para. 21)

A15. A title indicating the report is the report of an independent auditor, for example, "Independent Auditor's Report," affirms that the auditor has met all of the relevant ethical requirements regarding independence and, therefore, distinguishes the independent auditor's report from reports issued by others.

Addressee (Ref: Para. 22)

A16. The law or regulation applicable to the entity often specifies to whom the auditor's report is to be addressed. The auditor's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being audited.

Introductory Paragraph (Ref: Para. 23)

A17. The introductory paragraph states, for example, that the auditor has audited the accompanying financial statements of the entity, which comprise [state the title of each financial statement comprising the complete set of financial statements required by the applicable financial reporting framework, specifying the date or period covered by each financial statement] and referring to the summary of significant accounting policies and other explanatory information.

A18. When the auditor is aware that the audited financial statements will be included in a document that contains other information, such as an annual report, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial statements are presented. This helps users to identify the financial statements to which the auditor's report relates.

A19. The auditor's opinion covers the complete set of financial statements as defined by the applicable financial reporting framework. For example, in the case of many general purpose frameworks, the financial statements include: a Balance Sheet, Statement of Profit and Loss, a Cash Flow Statement, and a summary of significant accounting policies and other explanatory information. In case of some entities, additional information might also be considered to be an integral part of the financial statements.

Management's Responsibility for the Financial Statements (Ref: Para. 26)

A20. Proposed SA 200 (Revised) explains the premise, relating to the responsibilities of management and, where

¹⁸ Proposed SA 210 (Revised), "Agreeing the Terms of Audit Engagements," paragraph 6(a).

Forming an Opinion and Reporting on Financial Statements

appropriate, those charged with governance, on which an audit in accordance with SAs is conducted¹⁹. Management and, where appropriate, those charged with governance are responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework. For example, in the case of many general purpose frameworks, management is responsible for the preparation of financial statements that fairly present the financial position, financial performance and cash flows of the entity in accordance with those frameworks. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In some cases, law or regulation prescribing management's responsibilities may specifically refer to a responsibility for the adequacy of accounting books and records, or accounting system. As books, records and systems are an integral part of internal control (as defined in SA 315²⁰) no specific reference is made to them in paragraph 26 for the description of management's responsibilities.

A21. There may be circumstances when it is appropriate for the auditor to add to the description of management's responsibility in paragraph 26 to reflect additional responsibilities that are relevant to the preparation of the financial statements in the context of the particular jurisdiction or the nature of the entity.

A22. Proposed SA 210 (Revised) explains that, if law or regulation prescribes the responsibilities of management and, where appropriate, those charged with governance in relation to financial reporting, the auditor may determine that the law or regulation includes responsibilities that are equivalent in effect to those set out in Proposed SA 210 (Revised). For such responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them in the engagement letter or other suitable form of written agreement. For those that are not prescribed by law or regulation such that their effect is equivalent, the engagement letter or other suitable form of written agreement reflects the description in Proposed SA 210(Revised)²¹.

¹⁹ Presently, SA 200, "Basic Principles Governing an Audit" and SA 200A, "Objective and Scope of an Audit of Financial Statements" correspond to International Standard on Auditing (ISA) 200 (Revised and Redrafted). Both the SAs are currently being revised in the light of the ISA 200 (Revised and Redrafted). Post revision, the principles covered by SA 200 (AAS 1) and SA 200A (AAS 2) will be merged into one Standard, i.e., SA 200. ISA 200 (Revised and Redrafted), paragraph 13(j) states as follows:

"(j) Premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted – That management and, where appropriate, those charged with governance have the following responsibilities that are fundamental to the conduct of an audit in accordance with ISAs. That is, responsibility:

(i) For the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework; this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; and

(ii) To provide the auditor with:

- a. All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements;
- b. Any additional information that the auditor may request from management and, where appropriate, those charged with governance; and
- c. Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.

In the case of a fair presentation framework, the responsibility is for the preparation and fair presentation of the financial statements in accordance with the financial reporting framework; or the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework. This applies to all references to "preparation and presentation of the financial statements" in the ISAs.

The "premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted" may also be referred to as the "premise."

²⁰ SA 315, "Identifying and Assessing the Risks of Material Misstatements through Understanding the Entity and Its Environment," paragraph 4(c).

²¹ Proposed SA 210 (Revised), paragraph 6(b).

Exposure Draft of Revised SA 320

Auditor's Responsibility (Ref: Para. 29-30)

A23. The auditor's report states that the auditor's responsibility is to express an opinion on the financial statements based on the audit in order to contrast it to management's responsibility for the preparation of the financial statements.

A24. The reference to the Standards used conveys to the users of the auditor's report that the audit has been conducted in accordance with established Standards.

A25. In accordance with Proposed SA 200 (Revised), the auditor does not represent compliance with SAs in the auditor's report unless the auditor has complied with the requirements of the proposed SA 200 (Revised) and all other SAs relevant to the audit²².

Auditor's Opinion (Ref: Para. 35-37)

Wording of the auditor's opinion prescribed by law or regulation

A26. Proposed SA 210 (Revised) explains that, in some cases, law or regulation prescribes the wording of the auditor's report (which in particular includes the auditor's opinion) in terms that are significantly different from the requirements of SAs. In these circumstances, proposed SA 210 (Revised) requires the auditor to evaluate:

- (a) Whether users might misunderstand the assurance obtained from the audit of the financial statements and, if so,
- (b) Whether additional explanation in the auditor's report can mitigate possible misunderstanding.

If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, proposed SA 210 (Revised) requires the auditor not to accept the audit engagement, unless required by law or regulation to do so. In accordance with proposed SA 210 (Revised), an audit conducted in accordance with such law or regulation does not comply with SAs. Accordingly, the auditor does not include any reference in the auditor's report to the audit having been conducted in accordance with Standards on Auditing²³.

"Present fairly, in all material respects" or "give a true and fair view"

A27. Whether the phrase "present fairly, in all material respects," or the phrase "give a true and fair view" is used in any particular jurisdiction is determined by the law or regulation governing the audit of financial statements in that jurisdiction, or by generally accepted practice in that jurisdiction. Where law or regulation requires the use of different wording, this does not affect the requirement in paragraph 14 of this SA for the auditor to evaluate the fair presentation of financial statements prepared in accordance with a fair presentation framework.

Description of information that the financial statements present

A28. In the case of financial statements prepared in accordance with a fair presentation framework, the auditor's opinion

²² Presently, SA 200, "Basic Principles Governing an Audit" and SA 200A, "Objective and Scope of an Audit of Financial Statements" correspond to International Standard on Auditing (ISA) 200 (Revised and Redrafted). Both the SAs are currently being revised in the light of the ISA 200 (Revised and Redrafted). Post revision, the principles covered by SA 200 (AAS 1) and SA 200A (AAS 2) will be merged into one Standard, i.e., SA 200. ISA 200 (Revised and Redrafted), paragraph 20 states as follows:

"The auditor shall not represent compliance with ISAs in the auditor's report unless the auditor has complied with the requirements of this ISA and all other ISAs relevant to the audit."

²³ SA 210, paragraph 21.

Forming an Opinion and Reporting on Financial Statements

states that the financial statements present fairly, in all material respects, or give a true and fair view of the information that the financial statements are designed to present, for example, in the case of many general purpose frameworks, the financial position of the entity as at the end of the period and the entity's financial performance and cash flows for the period then ended.

Description of the applicable financial reporting framework and how it may affect the auditor's opinion

A29. The identification of the applicable financial reporting framework in the auditor's opinion is intended to advise users of the auditor's report of the context in which the auditor's opinion is expressed; it is not intended to limit the evaluation required in paragraph 14. The applicable financial reporting framework is identified in such terms as:

"... in accordance with International Financial Reporting Standards" or

"... in accordance with accounting principles generally accepted in India ..."

A30. When the applicable financial reporting framework encompasses financial reporting standards and legal or regulatory requirements, the framework is identified in such terms as "...the information required by the Companies Act, 1956, in the manner so required and (give a true and fair view) in conformity with the accounting principles generally accepted in India". Proposed SA 210 (Revised) deals with circumstances where there are conflicts between the financial reporting standards and the legislative or regulatory requirements²⁴.

A31. As indicated in paragraph A8, the financial statements may be prepared in accordance with two financial reporting frameworks, which are therefore both applicable financial reporting frameworks. Accordingly, each framework is considered separately when forming the auditor's opinion on the financial statements, and the auditor's opinion in accordance with paragraphs 35-36 refers to both frameworks as follows:

(a) If the financial statements comply with each of the frameworks individually, two opinions are expressed: that is, that the financial statements are prepared in accordance with one of the applicable financial reporting frameworks (e.g., the national framework) and an opinion that the financial statements are prepared in accordance with the other applicable financial reporting framework (e.g., International Financial Reporting Standards). These opinions may be expressed separately or in a single sentence (e.g., the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in India and with International Financial Reporting Standards).

(b) If the financial statements comply with one of the frameworks but fail to comply with the other framework, an unmodified opinion can be given that the financial statements are prepared in accordance with the one framework (e.g., the national framework) but a modified opinion given with regard to the other framework (e.g., International Financial Reporting Standards) in accordance with proposed SA 705.

A32. As indicated in paragraph A10, the financial statements may represent compliance with the applicable financial reporting framework and, in addition, disclose the extent of compliance with another financial reporting framework. As explained in paragraph A45, such supplementary information is covered by the auditor's opinion as it cannot be clearly differentiated from the financial statements.

(a) If the disclosure as to the compliance with the other framework is misleading, a modified opinion is

²⁴ Proposed SA 210 (Revised), paragraph [18].

Exposure Draft of Revised SA 320

expressed in accordance with proposed SA 705.

(b) If the disclosure is not misleading, but the auditor judges it to be of such importance that it is fundamental to the users' understanding of the financial statements, an Emphasis of Matter paragraph is added in accordance with proposed SA 706, drawing attention to the disclosure.

A32a. There can be situations where an entity or a class of entities obtains written permission from the Central Government of India 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 inability of the auditor to obtain sufficient appropriate audit evidence. If the effect of this is material, the auditor shall describe in sufficient detail the resultant deviation from the financial reporting framework in an Emphasis of Matter paragraph in accordance with the proposed SA 706.

Other Reporting Responsibilities (Ref: Para. 38-39)

A33. In case of some entities, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibility under the SAs to report on the financial statements. For example, the auditor may be asked to report certain matters if they come to the auditor's attention during the course of the audit of the financial statements. Alternatively, the auditor may be asked to perform and report on additional specified procedures, or to express an opinion on specific matters, such as the adequacy of accounting books and records. Auditing standards often provide guidance on the auditor's responsibilities with respect to specific additional reporting responsibilities in such situations.

A34. In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities within the auditor's report on the financial statements. In other cases, the auditor may be required or permitted to report on them in a separate report.

A35. These other reporting responsibilities are addressed in a separate section of the auditor's report in order to clearly distinguish them from the auditor's responsibility under the SAs to report on the financial statements. Where relevant, this section may contain sub-heading(s) that describe(s) the content of the other reporting responsibility paragraph(s).

Signature of the Auditor (Ref: Para. 40)

A36. The report is signed by the auditor 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. The partner/proprietor signing the audit report also needs to mention the membership number assigned by the Institute of Chartered Accountants of India.

Date of the Auditor's Report (Ref: Para. 41)

A37. The date of the auditor's report informs the user of the auditor's report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date. The auditor's responsibility for events and transactions after the date of the auditor's report is addressed in SA 560²⁵.

²⁵ SA 560, "Subsequent Events," paragraphs 10-17.

Forming an Opinion and Reporting on Financial Statements

A38. Since the auditor's opinion is provided on the financial statements and the financial statements are the responsibility of management, the auditor is not in a position to conclude that sufficient appropriate audit evidence has been obtained until evidence is obtained that all the statements that comprise the financial statements, including the related notes, have been prepared and management has accepted responsibility for them.

A39. In case of some entities, the applicable law or regulation identifies the individuals or bodies (e.g., the directors) that are responsible for concluding that all the statements that comprise the financial statements, including the related notes, have been prepared, and specifies the necessary approval process. In such cases, evidence is obtained of that approval before dating the report on the financial statements. In case of some other entities, however, the approval process is not prescribed in law or regulation. In such cases, the procedures the entity follows in preparing and finalising its financial statements in view of its management and governance structures is considered in order to identify the individuals or body with the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared. In some cases, law or regulation identifies the point in the financial statement reporting process at which the audit is expected to be complete.

A40. In some entities, final approval of the financial statements by shareholders is required before the financial statements are issued publicly. In these entities, final approval by shareholders is not necessary for the auditor to conclude that sufficient appropriate audit evidence has been obtained. The date of approval of the financial statements for purposes of SAs is the earlier date on which those with the recognised authority determine that all the statements that comprise the financial statements, including the related notes, have been prepared and that those with the recognised authority have asserted that they have taken responsibility for them.

Auditor's Report Prescribed by Law or Regulation (Ref: Para. 43)

A41. Proposed SA 200 (Revised) explains that the auditor may be required to comply with legal or regulatory requirements in addition to SAs²⁶. Where this is the case, the auditor may be obliged to use a layout or wording in the auditor's report that differs from that described in this SA. As explained in paragraph 4, consistency in the auditor's report, when the audit has been conducted in accordance with SAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognised standards. When the differences between the legal or regulatory requirements and SAs relate only to the layout and wording of the auditor's report and, at a minimum, each of the elements identified in paragraph 43(a)-(i) are included in the auditor's report, the auditor's report may refer to Standards on Auditing. Accordingly, in such circumstances the auditor is considered to have complied with the requirements of SAs, even when the layout and wording used in the auditor's report are specified by legal or regulatory reporting requirements. Where specific requirements in a particular law or regulation do not conflict with SAs, adoption of the layout and wording used in this SA assists users of the auditor's report more readily to recognise the auditor's report as a report on an audit conducted in accordance with SAs. (Proposed SA 210 (Revised) deals with circumstances where law or regulation prescribes the layout or wording of the

²⁶ Presently, SA 200, "Basic Principles Governing an Audit" and SA 200A, "Objective and Scope of an Audit of Financial Statements" correspond to International Standard on Auditing (ISA) 200 (Revised and Redrafted). Both the SAs are currently being revised in the light of the ISA 200 (Revised and Redrafted). Post revision, the principles covered by SA 200 (AAS 1) and SA 200A (AAS 2) will be merged into one Standard, i.e., SA 200. ISA 200 (Revised and Redrafted), paragraph A55 states as follows:

"In performing an audit, the auditor may be required to comply with legal or regulatory requirements in addition to the ISAs. The ISAs do not override laws and regulations that govern an audit of financial statements. In the event that those laws and regulations differ from the ISAs, an audit conducted only in accordance with laws and regulations will not automatically comply with ISAs".

auditor's report in terms that are significantly different from the requirements of SAs).

Auditor's Report for Audits Conducted in Accordance with Both Auditing Standards issued by the Institute of Chartered Accountants of India (national auditing standards) and International Standards on Auditing (Ref: Para. 44)

A42. The auditor may refer in the auditor's report to the audit having been conducted in accordance with both International Standards on Auditing as well as the national auditing standards, i.e., the Standards on Auditing issued by the Institute of Chartered Accountants of India when, in addition to complying with the national auditing standards, the auditor complies with each of the ISAs relevant to the audit²⁷.

A43. A reference to both International Standards on Auditing and the national auditing standards is not appropriate if there is a conflict between the requirements in SAs and those in the national auditing standards that would lead the auditor to form a different opinion or not to include an Emphasis of Matter paragraph that, in the particular circumstances, is required by ISAs. In such a case, the auditor's report refers only to the auditing standards (either International Standards on Auditing or the national auditing standards) in accordance with which the auditor's report has been prepared.

Supplementary Information Presented with the Financial Statements (Ref: Para. 46-47)

A44. In some circumstances, the entity may be required by law, regulation or Standards, or may voluntarily choose, to present together with the financial statements supplementary information that is not required by the applicable financial reporting framework. For example, supplementary information might be presented to enhance a user's understanding of the applicable financial reporting framework or to provide further explanation of specific financial statement items. Such information is normally presented in either supplementary schedules or as additional notes.

A45. The auditor's opinion covers supplementary information that cannot be clearly differentiated from the financial statements because of its nature and how it is presented. For example, this would be the case when the notes to the financial statements include an explanation of the extent to which the financial statements comply with another financial reporting framework. The auditor's opinion would also cover notes or supplementary schedules that are cross-referenced from the financial statements.

A46. Supplementary information that is covered by the auditor's opinion does not need to be specifically referred to in the introductory paragraph of the auditor's report when the reference to the notes in the description of the statements that comprise the financial statements in the introductory paragraph is sufficient.

A47. The law or regulation applicable to the entity may not require that the supplementary information be audited, and management may decide not to ask the auditor to include the supplementary information within the scope of the audit of the financial statements.

²⁷ Presently, SA 200, "Basic Principles Governing an Audit" and SA 200A, "Objective and Scope of an Audit of Financial Statements" correspond to International Standard on Auditing (ISA) 200 (Revised and Redrafted). Both the SAs are currently being revised in the light of the ISA 200 (Revised and Redrafted). Post revision, the principles covered by SA 200 (AAS 1) and SA 200A (AAS 2) will be merged into one Standard, i.e., SA 200. ISA 200 (Revised and Redrafted), paragraph A56 states as follows:

"The auditor may also conduct the audit in accordance with both ISAs and auditing standards of a specific jurisdiction or country. In such cases, in addition to complying with each of the ISAs relevant to the audit, it may be necessary for the auditor to perform additional audit procedures in order to comply with the relevant standards of that jurisdiction or country".

Forming an Opinion and Reporting on Financial Statements

A48. The auditor's evaluation whether unaudited supplementary information is presented in a manner that could be construed as being covered by the auditor's opinion includes, for example, where that information is presented in relation to the financial statements and any audited supplementary information, and whether it is clearly labeled as "unaudited."

A49. Management could change the presentation of unaudited supplementary information that could be construed as being covered by the auditor's opinion, for example, by:

- Removing any cross references from the financial statements to unaudited supplementary schedules or unaudited notes so that the demarcation between the audited and unaudited information is sufficiently clear.
- Placing the unaudited supplementary information outside of the financial statements or, if that is not possible in the circumstances, at a minimum, place the unaudited notes together at the end of the required notes to the financial statements and clearly label them as unaudited. Unaudited notes that are intermingled with the audited notes can be misinterpreted as being audited.

A50. The fact that supplementary information is unaudited does not relieve the auditor of the responsibility to read that information to identify material inconsistencies with the audited financial statements. The auditor's responsibilities with respect to unaudited supplementary information are consistent with those described in SA 720²⁸.

Material Modifications vis-a-vis ISA 700, "Forming an Opinion and Reporting on Financial Statements"

Additions

1. Paragraph 9 of ISA 700 explains what constitutes the International Financial Reporting Standards (IFRS) for the ISA 700. Since in India, financial reporting standards, used for the preparation and presentation of financial statements, can be 'Accounting Standards promulgated by the Accounting Standards Board of the Institute of Chartered Accountants of India or Accounting Standards, notified by the Central Government by publishing the same as Companies (Accounting Standards) Rules, 2006' or 'Accounting Standards for Local Bodies promulgated by the Committee on Accounting Standards for Local Bodies (CASLB) of the Institute of Chartered Accountants of India (ICAI)', the paragraph 9 has accordingly been changed. Corresponding changes have also been made at the relevant places of the Standard.
2. Paragraph 42 of ISA 700 states that the auditor's report shall name the location in the jurisdiction where the auditor practices. Since the practices prevailing in India requires the auditor to mention the "Place of Signature" instead of the "Auditor's Address" in the auditor's report, the requirement of mentioning the auditor's address has been replaced with the place of signature, which is the name of specific location, which is ordinarily the city where the audit report is signed. Corresponding changes have also been made at the relevant places of the Standard.
3. Paragraph A36 of ISA 700 explains who is eligible for signing the auditor's report in the different situations. Since in India, audit report may be signed by the auditor in his personal name in case of sole practitioner and where the firm is appointed as the auditor, the report may be signed in the personal name of the auditor and in the name of the audit firm, the paragraph has accordingly been changed. Since as per the Indian practice, the partner/proprietor signing the

²⁸ SA 720, "The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements".

Exposure Draft of Revised SA 320

audit report also needs to mention the membership number assigned by the Institute of Chartered Accountants of India, the said requirement has also been incorporated in the paragraph A36 of proposed SA 700.

Illustrative Formats of Auditors' Reports on Financial Statements

Illustration 1:

Circumstances include the following:

- Audit of a complete set of separate general purpose financial statements of a company prepared under the Companies Act, 1956 financial reporting framework, which is a [fair presentation](#) framework.
- The terms of the audit engagement reflect description of management's responsibility for the financial statements in SA 210.
- [The report is unmodified and does not include either an Emphasis of Matter paragraph or an Other Matter\(s\) paragraph.](#)
- In addition to the audit of financial statements, the auditor has other reporting responsibilities required under the Companies Act, 1956 and/or other regulatory requirements.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Financial Statements

We have audited the accompanying financial statements of ABC Company Limited ("the Company"), which comprise the Balance Sheet as at March 31, 20XX, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards

Exposure Draft of Revised SA 320

require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the 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:

- (a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 20XX;
- (b) in the case of the Profit and Loss Account, of the profit/ loss for the year ended on that date; and
- (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
2. As required by section 227(3) of the Act, we report that:
 - a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books [and proper returns adequate for the purposes of our audit have been received from branches not visited by us]²⁹;
 - c. the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement dealt with by this Report are in agreement with the books of account [and with the returns received from branches not visited by us]³⁰;

²⁹ To be included if relevant.

³⁰ To be included if relevant.

Forming an Opinion and Reporting on Financial Statements

- d. in our opinion, the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement comply with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
- e. on the basis of written representations received from the directors as on March 31, 20XX, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 20XX, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
- f. Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the Company.

For XYZ and Co.
Chartered Accountants

Signature
(Name of the Member Signing the Audit Report)
(Designation³¹)
Membership Number

Place of Signature

Date

³¹ Partner or Proprietor, as the case may be.

Illustration 2:

Circumstances include the following:

- Audit of a complete set of consolidated general purpose financial statements of a parent company prepared under accounting principles generally accepted in India, as required for compliance with SEBI's regulatory requirement, which is a fair presentation framework.
- The terms of the group audit engagement reflect description of management's responsibility for the financial statements in SA 210.
- The report is unmodified and does not include either an Emphasis of Matter paragraph or an Other Matter(s) paragraph.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of ABC Company Limited

We³² have audited the accompanying consolidated financial statements of ABC Company Limited ("the Company") and its subsidiaries, which comprise the consolidated Balance Sheet as at March 31, 20XX, and the consolidated Statement of Profit and Loss and the consolidated Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Director's Responsibility for the Consolidated Financial Statements

Board of Directors is responsible for the preparation of these consolidated financial statements that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Company in accordance with accounting principles generally accepted in India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the consolidated financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

³² As there is no reporting on 'Other Legal and Regulatory Requirements', there is no necessity of including the heading 'Report on the Financial Statements' above the introductory paragraph.

Forming an Opinion and Reporting on Financial Statements

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and presentation of the consolidated 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 purposes of expressing an opinion on the effectiveness of the Company's internal control]³³. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) in the case of the consolidated Balance Sheet, of the state of affairs of the Company as at March 31, 20XX;
- (b) in the case of the consolidated Profit and Loss Account, of the profit/loss for the year ended on that date; and
- (c) in the case of the consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

For XYZ and Co.
Chartered Accountants

Signature
(Name of the Member Signing the Audit Report)
(Designation³⁴)
Membership Number

Place of Signature

Date

³³ Words in the parentheses may be omitted if the financial reporting framework requires the auditor to specifically report on the effectiveness of the entity's internal control.

³⁴ Partner or Proprietor, as the case may be.

Illustration 3:

Circumstances include the following:

- Audit of a complete set of separate general purpose financial statements of an entity prepared in accordance with the requirements of XYZ Law of India under a compliance framework.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SA 210.
- The report is unmodified and does not include either an Emphasis of Matter paragraph or an Other Matter(s) paragraph.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We³⁵ have audited the accompanying financial statements of ABC and Associates, which comprise the Balance Sheet as at March 31, 20XX, and the Profit and Loss Account³⁶ for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with XYZ Law of India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances [but not for the purpose of expressing an

³⁵ As there is no reporting on 'Other Legal and Regulatory Requirements', there is no necessity of including the heading 'Report on the Financial Statements' above the introductory paragraph.

³⁶ Provide titles of all financial statements that comprise a full set of financial statements required by XYZ Law of India.

Forming an Opinion and Reporting on Financial Statements

opinion on the effectiveness of the Company's internal control³⁷. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion³⁸

In our opinion and to the best of our information and according to the explanations given to us, the financial statements of ABC and Associates for the year ended March 31, 20XX are prepared, in all material respects, in accordance with XYZ Law of India.

For XYZ and Co.
Chartered Accountants

Signature
(Name of the Member Signing the Audit Report)
(Designation³⁹)
Membership Number

Place of Signature

Date

³⁷ Words in parentheses may be omitted if the financial reporting framework under XYZ Law of India requires the auditor to specifically report on the effectiveness of the entity's internal control.

³⁸ Note that the opinion excludes the words 'true and fair' as this report is not under a fair presentation framework.

³⁹ Partner or Proprietor, as the case may be.

Limited Revision Consequential to issuance of the Exposure Draft of the Standard on Auditing (SA) 700 (Revised), “Forming an Opinion and Reporting on Financial Statements”

The proposed amendments to the Standard on Auditing (SA) 560 (Revised) have been shown in track change mode.

SA 560 (Revised), “Subsequent Events”

5(b). Date of approval of the financial statements – The date on which all the statements that comprise the financial statements, including the related notes, have been prepared and those with the recognised authority have asserted that they have taken responsibility for those financial statements.

A2. In some jurisdictions, law or regulation identifies the individuals or bodies (for example, management or those charged with governance) that are responsible for concluding that all the statements that comprise the financial statements, including the related notes, have been prepared, and specifies the necessary approval process. In other jurisdictions, the approval process is not prescribed in law or regulation and the entity follows its own procedures in preparing and finalising its financial statements in view of its management and governance structures. In some jurisdictions, final approval of the financial statements by shareholders is required. In these jurisdictions, final approval by shareholders is not necessary for the auditor to conclude that sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements has been obtained. The date of approval of the financial statements for purposes of the ISAs is the earlier date on which those with the recognised authority determine that all the statements that comprise the financial statements, including the related notes, have been prepared and that those with the recognised authority have asserted that they have taken responsibility for those financial statements....

A3. The auditor’s report cannot be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the opinion on the financial statements,¹ including evidence that all the statements that comprise the financial statements, including the related notes, have been prepared and that those with the recognised authority have asserted that they have taken responsibility for those financial statements...

¹ SA 700 (Revised), paragraph 41. In some cases, law or regulation also identifies the point in the financial statement reporting process at which the audit is expected to be complete.