

**Implementation Guide on
Reporting Standards
(Revised SA 700, Revised SA 705
and Revised SA 706)**



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

© The Institute of Chartered Accountants of India.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form, or by any means, electronic, mechanical, photocopying, recording, or otherwise, without prior permission, in writing, from the publisher.

Revised Edition : May 2018

Committee : Auditing and Assurance Standards Board

Email : aasb@icai.in

Website : www.icai.org

Price : Rs. 200/-

ISBN : 978-81-8441-407-3

Published by : The Publication Department on behalf of the Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002.

Printed by : Sahitya Bhawan Publications, Hospital Road, Agra 282 003

March/2019/ P2463 (Revised)

Foreword

In 2016, ICAI issued the revised auditor's reporting standards i.e. Revised SA 700 – '*Forming an Opinion and Reporting on Financial Statements*', Revised SA 705 – '*Modifications to the Opinion in the Independent Auditor's Report*' and Revised SA 706 - '*Emphasis of Matter paragraphs and Other Matter paragraphs in the Independent Auditor's Report*'. These standards have prescribed new formats of audit reports and have completely changed the manner of auditor's reporting. These standards are effective for audits of financial statements for periods beginning on or after April 1, 2018. In view of the comprehensive changes which have been made by these standards, a need was felt to provide guidance to the members on these standards so that they can discharge their reporting responsibilities under these standards effectively.

I am happy that continuing with its efforts to issue Implementation Guides on various Standards on Auditing (SA) for the benefit of our members, the Auditing and Assurance Standards Board of ICAI has brought out this revised edition of the "Implementation Guide on Reporting Standards (Revised SA 700, Revised SA 705 and Revised SA 706)" whose first edition was issued in 2010. The Implementation Guide has been written in an easy to understand lucid language in the form of frequently asked questions (FAQs) and is quite comprehensive.

I compliment CA. Shyam Lal Agarwal, Chairman, CA. Sanjay Vasudeva, Vice-Chairman and all the members of the

Auditing and Assurance Standards Board of ICAI for bringing out this Implementation Guide for the benefit of the members. I am sure that the members and other interested readers would find this Implementation Guide immensely useful.

May 1, 2018
New Delhi

CA. Naveen N.D. Gupta
President, ICAI

Preface

The independent auditor's report on financial statements of an entity lends credibility to the financial statements prepared by the management of the entity. Since, audited financial statements are relied upon by the various users of financial statements e.g. shareholders, creditors, investors, regulators, government agencies and other users, it is essential that audit reports convey the auditor's opinion on financial statements in clear and unambiguous manner in order to serve a meaningful purpose to these users. Uniformity and comparability in the format and contents of audit reports are also elements essential to enhance their usability and value to these users.

In 2010, the Institute of Chartered Accountants of India, issued three separate Standards on Auditing (SA) to deal with the form and content of independent auditor's report namely SA 700, Forming an Opinion and Reporting on Financial Statements; SA 705, Modifications to the Opinion in the Independent Auditor's Report; and SA 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report. These Standards are collectively known as reporting standards. In the same year, the Auditing and Assurance Standards Board (AASB) of ICAI brought out an Implementation Guide on these reporting standards. In 2016, ICAI revised these reporting standards and issued revised SA 700, revised SA 705 and revised SA 706. These revised standards are effective for audits of financial statements for periods beginning on or after April 1, 2018. Soon after the issuance of these revised standards, AASB started the process of revising the existing Implementation Guide on Reporting Standards (SA 700, SA 705 and SA 706).

It gives me immense pleasure to place in hands of the members, this thoroughly revised Implementation Guide on Reporting Standards (Revised SA 700, Revised SA 705 and

Revised SA 706) brought out by AASB. The Implementation Guide has been written in simple and easy to understand language and contains detailed guidance on various issues involved in these revised standards. For ease of usage and understanding of the readers, the Implementation Guide is written in a “Question – Answer” format containing frequently asked questions (FAQs) on these Standards.

At this juncture, I wish to express my sincere gratitude to CA. Abhijit Bandyopadhyay and his team for their dedicated efforts in developing the basic draft of this Implementation Guide despite their other pressing preoccupations. I would also like to thank CA. Khushroo Panthaky, CA. Deepa Agarwal and their team who have updated and aligned this Implementation Guide in line with the discussion held in the Board.

I wish to express my sincere thanks to CA. Naveen N. D. Gupta, Honourable President, ICAI and CA. Prafulla Premeekh Chhajed, Honourable Vice-President, ICAI for their guidance and support to the activities of the Board.

I wish to place on record high appreciation of CA. Sanjay Vasudeva, Vice-Chairman of the Board for his whole-hearted support. I also wish to place on record my sincere thanks to all the Board Members and all the Council Members for their suggestions, support and guidance in finalising this Implementation Guide as well as other pronouncements of the Board. I also wish to thank CA. Megha Saxena, Secretary, AASB and other officers and staff of AASB for their continued co-operation.

I am confident that the Implementation Guide would be well received by the members and other interested readers.

May 1, 2018
New Delhi

CA. Shyam Lal Agarwal
Chairman,
Auditing and Assurance Standards Board

Contents

Foreword

Preface

Page No.

Chapter 1	Introduction	1-2
Chapter 2	Importance of Independent Auditor's Report	3-8
Chapter 3	SA 700 (Revised), Forming an Opinion and Reporting on Financial statements	9-42
Chapter 4	SA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report	43-66
Chapter 5	SA 706 (Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	67-79
Appendices		80-208
1	Illustrations of Independent Auditor's Reports on Financial Statements (reproduced from Appendix of SA 700(Revised))	81-120
2	Illustrations of Auditor's Reports with Modifications to the Opinion (reproduced from Appendix of SA 705(Revised))	121-143

3	Illustrations of an Auditor's Report that includes an Emphasis of Matter Paragraph/Other Matter Paragraph (reproduced from Appendix of SA 706(Revised))	144-153
4	Illustrations of Auditor's Reports Relating to Going Concern (reproduced from Appendix of SA 570(Revised))	154-167
5	Illustrations of Auditor's Reports Relating to Other Information (reproduced from Appendix of SA 720(Revised))	168-208

Chapter 1 Introduction

1.1 The Standards on Auditing and Quality Control are divided into two groups: Standards on Quality Control (which apply to quality control at the firm level) and the Standards on Auditing (SAs) which apply to audits of historical financial information. The latter are further categorised into: Standards dealing with (a) general principles and responsibilities (200-series), (b) risk assessment and response to assessed risks (300 and 400-series), (c) audit evidence (500-series), (d) using the work of others (600-series), (e) audit conclusions and reporting (700-series); and (f) specialised areas (800-series).

Scope of the Implementation Guide

1.2 The scope of this Implementation Guide is limited to SA 700(Revised), "Forming an Opinion and Reporting on Financial Statements", SA 705(Revised), "Modifications to the Opinion in the Independent Auditor's Report" and SA 706(Revised), "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report" that deal with how to form an audit opinion, reach audit conclusions and issue different types of auditor's reports.

1.3 These Standards are arguably the most important ones because they deal with processes that culminate into the end product of an auditor's work i.e. the auditor's report. They are crucial from an auditor's risk perspective because they lay down the principles and procedures on how an auditor forms his opinion and the manner in which he communicates the opinion, which determines how the society in general or specific stakeholders will make important economic decisions. In other words, the opinions and conclusions stated in an auditor's report and how those were reached will be what regulators and investigative agencies challenge in the event that something goes wrong

Implementation Guide on Reporting Standards

subsequently. It is therefore of great professional concern that the practitioners appropriately understand and carefully implement the Standards relating to these areas that are broadly referred to in this Implementation Guide as “*the Reporting Standards*”.

1.4 It should, however, be noted that this Implementation Guide is not a replacement of or a substitute for the original Standard(s) and must not therefore be read on a stand-alone basis. It is meant to clarify and augment a practitioner’s understanding of the Standards and provide guidance where appropriate. Practitioners are therefore urged to first read the relevant Standard(s) and refer to them as they use this Implementation Guide. For ease of usage, the various issues in reporting standards, SA 700(Revised), SA 705(Revised) and SA 706(Revised) have been dealt with in an easy-to-follow “Question–Answer” format.

Chapter 2

Importance of Independent Auditor's Report

2.1 Credible financial information is essential to the very existence of our society. The underlying objective of an independent audit is to add credibility to the financial statements prepared by management. Access to capital markets, mergers, acquisitions, and investments in an entity depend not only on the information that management provides in financial statements, but also on the assurance that such financial statements are free of material misstatements. This assurance is provided, to a considerable extent, by an independent audit. While an audit does not by itself guarantee accuracy of the financial statements, it provides users with a reasonable assurance that an entity's financial statements give a true and fair view in conformity with accounting pronouncements within the applicable financial reporting framework.

2.2 Whether it is a business granting trade credit, an investor buying or selling securities, a banker sanctioning a loan, or a government collecting taxes, stakeholders depend on financial information provided by the very people whose interests often run directly counter to their own. The audit report issued by an independent auditor is what such stakeholders therefore seek.

2.3 The contribution of the independent auditor is therefore to give credibility to the financial statements. Credibility means that the financial statements can be believed; that is, they can be relied upon by stakeholders such as creditors, bankers, stockholders, government and other interested third parties as being true and fair.

2.4 Audited financial statements are the accepted means by which business corporations report their operating results and financial position. The word "audit", when applied to financial statements, means that the balance sheet,

Implementation Guide on Reporting Standards

statements of profit and loss and cash flows and statement of changes in equity, where applicable, and the related accounting policies and notes which are covered by an auditor's report given by an independent auditor, expressing his professional opinion as to the fairness or otherwise of the entity's financial statements and the fact that in his view, the said financial statements are or are not (a) free from material misstatement and (b) that they are fairly presented.

2.5 The goal is to determine whether these financial statements have been prepared in conformity with the generally accepted accounting principles (GAAPs). While audits of financial statements in India are performed by chartered accountants, the key users of auditors' reports include trade creditors, management, investors, bankers, financial analysts and government agencies.

2.6 The auditor's report is the key and most obvious deliverable of audit. It is a deliverable that has remained largely unchanged in many jurisdictions for quite a long time. Following the events of the past few years, investors and other users and stakeholders, have called for the auditor's report to provide more information – in particular, for auditors to provide more relevant information about the audit that was performed.

2.7 Given below is the summary of the revised/new reporting standards:

SA 700 (Revised), Forming an Opinion and Reporting on Financial Statements	Represents the overarching standard for auditor reporting in accordance with the SAs; includes the required elements of the auditor's report, and specifies the contents of the sections for the opinion, basis for opinion, management responsibilities and auditor responsibilities.
---	--

Implementation Guide on Reporting Standards

SA 701, Communicating Key Audit Matters in the Independent Auditor's Report	Includes the requirements and guidance for communicating Key Audit Matters (KAMs) – the centerpiece of the new auditor's report and the most significant change to auditor's reporting.
SA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report	Addresses how the elements of the auditor's report are affected when a qualified, adverse or disclaimer of opinion is expressed.
SA 706 (Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	Addresses the requirements for inclusion of Emphasis of Matter (EOM) and Other Matter (OM) paragraphs in the auditor's report, and has been updated to: <ul style="list-style-type: none"> • Explain the relationship of EOM and KAMs. • Remove reporting of material uncertainties related to going concern as a form of EOM reporting¹.

2.8 The revised auditor's report in accordance with the new/revised Standards on Auditing (SAs) maintains all its existing elements and information. The introduction of several new elements and enhancements results in a significant expansion to the content and length of the standard auditor's report.

2.9 The significant changes to the auditor's report are as follows:

¹ SA 570(Revised), "Going Concern" deals with the reporting requirements for material uncertainties related to going concern.

Implementation Guide on Reporting Standards

- *Opinion:* The auditor's opinion is now required to be positioned at the beginning of the audit report, followed by the Basis for Opinion.
- *Basis for Opinion:* The Basis for Opinion section previously was required only when the auditor's opinion was modified. Now, this section will be required for all auditor's reports and will explain that the audit was conducted in accordance with the SAs and whether the audit evidence obtained is sufficient and appropriate to provide a basis for the opinion.
- *New affirmative statement about the auditor's fulfillment of independence and other relevant ethical requirements:* The Basis for Opinion section will also include a new affirmative statement that the auditor is independent of the entity and has fulfilled the auditor's other relevant ethical responsibilities relating to the audit, which includes the Code of Ethics issued by the ICAI together with the ethical requirements that are relevant to the audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder.
- A new Key Audit Matters (KAMs) section for audits of listed entities and circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report; and when the auditor is required by law or regulation to communicate key audit matters in the auditor's report. The new Key Audit Matters section is the centerpiece of the revised auditor's report, and the subject of a new separate standard, SA 701.
- A new section on Other Information (where applicable) in accordance with requirements of SA 720(Revised), The Auditor's Responsibilities relating to other Information.
- New descriptions of responsibilities relating to going concern to be included in the respective sections for management's and auditor's responsibilities. The description of management's responsibility for going

Implementation Guide on Reporting Standards

concern is intended to reflect the requirements of the applicable financial reporting framework, while the description of the auditor's responsibility reflects responsibilities under SA 570(Revised), which are required regardless of the applicable financial reporting framework.

- Enhanced reporting requirements when a material uncertainty related to going concern exists and disclosure in the financial statements are adequate. Instead of the current requirement to report material uncertainties within an Emphasis of Matter Paragraph, reporting of a material uncertainty is required to be made within a separate section that includes a heading and specific wording that are prescribed. However, if the auditor concludes that there is a material uncertainty and the disclosure given in the financial statements are inadequate, the auditor should modify the audit report in accordance with the requirements specified in SA 705(Revised).
- Identification of those charged with governance within the management's responsibilities section. This section of the auditor's report shall also identify those responsible for the oversight of the financial reporting process, when those responsible for such oversight are different from those who fulfill the responsibilities for preparing financial statements (in many cases, the audit committee). In this case, the heading of this section shall also refer to "Those Charged with Governance" or such term that is appropriate in the context of the legal framework applicable to the entity.
- *Expanded description of the auditor's responsibilities:* This approach results in a fuller description of the auditor's responsibilities in relation to specific matters, including fraud, internal control, accounting policies and accounting estimates, evaluating the overall presentation, structure and content of the financial statements and disclosures, group audits, and communications with

Implementation Guide on Reporting Standards

those charged with governance. Because of the increased length of this section, SA 700(Revised) includes a provision that certain components of this description may be presented in an appendix to the auditor's report or, where law, regulation or applicable auditing standards expressly permit, by reference to a website of an appropriate authority.

Chapter 3

SA 700 (Revised), Forming an Opinion and Reporting on Financial Statements

Introduction to the Standard

3.1 An audit report is a very important document which is attached to the audited financial statements. The shareholders, stakeholders and the public at large rely significantly on the contents in an audit report as it provides auditor's opinion on the entity's financial statements. SA 700 (Revised) deals with the responsibility of the auditors to form an opinion on the financial statements. The Standard also deals with the form and content of the audit report.

3.2 This SA deals with:

- (a) How to form an opinion, and
- (b) How to give a '*clean*' (*unmodified*) opinion on the general purpose financial statements.

3.3 There are other SAs to be adhered to in case the opinion is modified (such as qualified, disclaimer or adverse opinion) or in case the audit report contains an Emphasis of Matter and/ or Other Matter Paragraph and/ or key audit matter or in case the report is on special purpose financial statements or on a single financial statement (such as audit of income statement alone) or of a specific element, account or item of a financial statement (such as audit of receivables).

3.4 SA 700 (Revised) is like a parent of all the reporting standards because it lays down the fundamental principles and guidelines of reporting. The other reporting standards draw their structure from those principles.

Given below are the responses on key issues of SA 700(Revised) in a Question–Answer format.

Question 1: For which audits does the auditor need to follow the revised reporting standard i.e. SA 700 (Revised)?

Response 1: The revised reporting standard, SA 700 (Revised), is applicable for audits of financial statements for periods beginning on or after April 1, 2018.

Question 2: Is SA 700(Revised) applicable for audit reports signed after April 1, 2018?

Response 2: Since the revised reporting standard, SA 700(Revised) is applicable for audits of financial statements for periods beginning on or after April 1, 2018, audit reports signed after April 1, 2018 pertaining to financial statements for periods beginning before April 1, 2018 will not be governed by SA 700 (Revised).

Question 3: SA 700 (Revised) applies to audits of general purpose financial statements. What does that mean?

Response 3: Firstly, this SA applies to ‘audits’ and therefore not to engagements where a practitioner performs, for example, ‘reviews’ or ‘compilations’ or ‘agreed-upon procedures’.

Secondly, this SA applies to audits of complete set of ‘financial statements’. This includes the set of general purpose financial statements, generally comprising of a balance sheet, statement of profit and loss (or income statement), cash flow statement, significant accounting policies and notes, and where applicable, statement of changes in equity.

Thirdly, ‘general purpose’ financial statements are those that are prepared in accordance with a ‘general purpose financial reporting framework’, which is a framework designed to meet

Implementation Guide on Reporting Standards

the common financial information needs of a wide range of users, as distinguished from a 'special purpose financial reporting framework' that caters to the needs of a specific set of users. Reports on special purpose financial statements are discussed in SA 800².

Question 4: Is SA 700 (Revised) applicable to audits for which SA 800 or SA 805 applies?

Response 4: SA 800 states that when forming an opinion and reporting on special purpose financial statements, the auditor shall apply the requirements in SA 700 (Revised). Similarly, SA 805 states that when forming an opinion and reporting on a single financial statement or on a specific element of a financial statement, the auditor shall apply the requirements in SA 700 (Revised), adapted as necessary in the circumstances of the engagement. Therefore, the requirements of SA 700 (Revised) should be considered when issuing an audit report under SA 800 or SA 805.

Question 5: A 'general purpose framework' includes two sub-groups – a 'fair presentation framework' and a 'compliance framework'. What are these?

Response 5: A fair presentation framework is where the auditor gives a "true and fair" report, whereas a compliance framework is one where the auditor reports on whether the financial statements comply with the requirements of the applicable laws, or rules and regulations, or a set of contractual terms and conditions. There can be a situation wherein the auditor reports on the financial statements of a bank or a non-banking financial company (NBFC) that is regulated by the Reserve Bank of India (RBI), and a part of the auditor's report is in relation to the compliance with RBI rules and the other part of the auditor's report is on the true and fair view of the entity's financial position, its performance and the cash flows.

² SA 800, Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks.

Implementation Guide on Reporting Standards

Technically, for a framework to be a fair presentation framework, it should meet the requirements of the framework and, to achieve this, the management has the freedom to (a) provide disclosures beyond those that are mandated by the framework or, (b) in rare cases, to even depart from the requirements of the framework, in order to achieve a true and fair presentation. A compliance framework, on the other hand, necessitates meeting the requirements of the framework but does not give the management, such freedom.

Question 6: In an auditor's report there is an 'opinion paragraph' where he expresses his opinion on the financial statements (which could be a fair presentation opinion or a compliance opinion or a combination of both). How does an auditor decide whether he should give a 'clean' or 'unmodified' opinion?

Response 6: When the auditor gives a clean opinion, he says that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. It needs to be noted that (a) he is forming his opinion on the whole set of financial statements taken together, and not on a component or element of those financial statements, and (b) his opinion is formed in the context of the overall 'materiality' of those financial statements.

In order to assert that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor needs to reach a conclusion that those financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error.

To reach this conclusion, the auditor has to determine whether:

Implementation Guide on Reporting Standards

- (a) Sufficient appropriate audit evidence has been obtained in accordance with SA 330³;
- (b) Uncorrected misstatements are, individually or in the aggregate, not material in accordance with SA 450⁴;
- (c) Requirements of the financial reporting framework (e.g., the Accounting Standards) have been materially complied with;
- (d) Management's judgements in preparing the financial statements are free from 'bias' (refer SA 260 (Revised)⁵ and SA 540⁶);
- (e) The financial statements adequately disclose the accounting policies selected and applied;
- (f) Those accounting policies are appropriate and consistent with the financial reporting framework;
- (g) The accounting estimates made by management are reasonable;
- (h) The information presented in the financial statements is relevant, reliable, comparable and understandable;
- (i) There are adequate disclosures in financial statements for the users to understand the effect of material transactions and events on the information conveyed in the financial statements;
- (j) The terminology used in the financial statements and the title of each financial statements is appropriate, and the financial reporting framework is adequately referred to or described;
- (k) In reporting under a fair presentation framework, the financial statements indeed achieve a true and fair presentation, after considering –

³ SA 330, The Auditor's Responses to Assessed Risks.

⁴ SA 450, Evaluation of Misstatements Identified During the Audit.

⁵ SA 260 (Revised), Communication with Those Charged with Governance.

⁶ SA 540, Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures.

Implementation Guide on Reporting Standards

- The overall presentation, structure and content of the financial statements, and that
- The financial statements, including the related notes, represent the underlying transactions in a manner that is true and fair.

If one considers the relevant body of GAAP (Generally Accepted Accounting Principles – which includes accounting standards and other pronouncements as well as the relevant law) that comprises the financial reporting framework with which the financial statements must be in accordance with, as well as the auditor’s responsibilities under the auditing standards and other pronouncements, reaching an audit opinion on a set of financial statements, indeed requires doing a considerable amount of diligent work, and documenting the work done, in order to be able to “prove” that the auditor reached an informed opinion before signing a clean audit opinion. Issuing a clean opinion is, therefore, an outcome based on meticulous collection of evidence, detailed documentation of work performed, and analyzing it all with professional skill, competence and reasoned judgements.

Question 7: One of the factors affecting the nature of opinion is whether the requirements of the financial reporting framework (e.g., the Accounting Standards) have been materially complied with or not. What does these Accounting Standards include?

Response 7: SA 700(Revised) states that the Accounting Standards include the following as may be applicable to the entity:

- The Accounting Standards issued by the ICAI⁷; or
- The Standards of Accounting notified by the Central Government in pursuance of section 133 of the Companies Act, 2013 and the Rules thereunder; or

⁷ For example, the Accounting Standards for Local Bodies issued by the ICAI.

Implementation Guide on Reporting Standards

- The International Financial Reporting Standards (IFRSs); or
- The International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board.

Question 8: When should an auditor refuse to give a clean (unmodified) opinion?

Response 8: There can be two situations: (a) when the auditor has obtained sufficient appropriate audit evidence, and (b) when the auditor is unable to obtain sufficient appropriate audit evidence.

In the first situation, he cannot give an unmodified opinion if he reaches a conclusion that the financial statements taken as a whole are not free from material misstatement(s). In the second situation, due to non-availability of sufficient appropriate audit evidence, he does not have the ability to reach a definite conclusion that the financial statements, taken as a whole, are free from material misstatement(s). In either situation, he must give a modified opinion under SA 705 (Revised).

When reporting under a fair presentation framework, if the auditor concludes that the fair presentation is not achieved, he should discuss the matter with management to resolve the issue (by giving additional disclosures or, in rare cases, departing from the framework) and, based on the outcome, decide whether he should give a modified opinion.

Question 9: Is it necessary that an auditor's report should follow a particular form and style?

Response 9: Yes. Consistency in auditor's reports (as required under this SA) promotes credibility in the global marketplace. It helps to promote the users' understanding, and to identify unusual circumstances when they occur. It needs to be ensured that the formats of auditor's report as laid out under various Illustrations to SA 700(Revised) are fully adhered to.

Implementation Guide on Reporting Standards

Question 10: What are the headings of the various paragraphs needed in an auditor's report?

Response 10: The 'Headings' and the order of the various paragraphs for inclusion in the auditor's report are as follows:

- (a) Title
- (b) Addressee
- (c) Auditor's Opinion
- (d) Basis for Opinion
- (e) Going Concern, where applicable⁸
- (f) Key Audit Matters⁹
- (g) Other Information, where applicable¹⁰
- (h) Responsibilities of Management for the Financial Statements
- (i) Auditor's responsibilities for the audit of the Financial Statements
- (j) Report on Other Legal and Regulatory Requirements
- (k) Signature of the Auditor
- (l) Place of Signature
- (m) Date of the auditor's report

Question 11: What has changed in the structure of the Independent auditor's report?

Response 11: The opinion section is now required to be presented first, instead of placing after the responsibility paragraphs, which was the erstwhile requirement, followed by the basis for opinion paragraph. There is no separate introductory paragraph as the same has now become part of

⁸ In accordance with the requirements of SA 570 (Revised), Going Concern.

⁹ In accordance with the requirements of SA 701, Communicating Key Audit Matters in the Independent Auditor's Report.

¹⁰ In accordance with the requirements of SA 720 (Revised), The Auditor's Responsibilities relating to other information.

Implementation Guide on Reporting Standards

opinion paragraph. There are two new sections, namely, going concern (where applicable) and key audit matters (as applicable). The key audit matters paragraph needs to be mandatorily provided only in the case of listed entities or in case of unlisted entities where the auditor believes that such matters are required to be reported (refer Implementation Guide to SA 701 issued by the Auditing and Assurance Standards Board of ICAI for detailed guidance). An overview of the key changes in the structure of the independent auditor's report is given below:

Pre-revised SA 700	SA 700(Revised)
Report on the Financial Statements	Report on the Audit of the Financial Statements
<ul style="list-style-type: none"> • Title: Independent Auditor's Report • Addressee: As per Engagement terms • Subtitle: Report on the Financial Statements • Introductory Paragraph: To mention <ul style="list-style-type: none"> - Whose Financial Statements are audited and period covered - Title of each statement in Financial Statements - Refer summary of significant accounting policies and explanatory information • Management's Responsibility for the Financial Statements • Auditor's Responsibility • Basis for modified opinion, if 	<ul style="list-style-type: none"> • Title: Independent Auditor's Report • Addressee: As per Engagement terms • Subtitle: Report on the Audit of the Financial Statements • Opinion: Including information to be mentioned in introductory paragraph under pre-revised SA 700 • Basis for Opinion • Emphasis of Matter • Key Audit Matters • Responsibilities of Management and Those Charged with Governance for the Financial Statements • Auditor's Responsibilities for the Audit of the Financial Statements • Other Matter

Implementation Guide on Reporting Standards

<ul style="list-style-type: none">any• Auditor's Opinion• Emphasis of Matter• Other Matter• Subtitle: Report on Other Legal and Regulatory Requirements• Signature• Date• Place	<ul style="list-style-type: none">• Subtitle: Report on Other Legal and Regulatory Requirements• Signature• Date• Place
---	---

Question 12: Who should the audit report be addressed to?

Response 12: The auditor's report is usually addressed to those for whom it is prepared. For example, an audit report on the year-end financial statements under the Companies Act, 2013, is addressed to the members of the company. Similarly, an audit report on the financial statements of a partnership firm may be addressed to the partners, and an audit report on the financial statements of a government undertaking may be addressed to the President of India or to the appropriate shareholder/s of the undertaking.

Question 13: Where would the information which was presented under the introductory paragraph of erstwhile SA 700 be presented in the prescribed format of the audit report under SA 700 (Revised)?

Response 13: It may be noted that the introductory paragraph of erstwhile SA 700 has been merged with Opinion section in SA 700(Revised). Under SA 700 (Revised), the Opinion section of the auditors' report identifies the entity whose financial statements are audited, states that the financial statements have been audited, identifies the title of each statement that comprises the financial statements, refers to the notes, including the summary of significant accounting policies, and specifies the

Implementation Guide on Reporting Standards

date or period covered by each of the statement comprising the financial statements.

Question 14: What is the section on ‘Responsibilities of Management for the Financial Statements’?

Response 14: It is important for the users of the financial statements to explicitly know that the independent auditors do not have or share the responsibility for the preparation of the financial statements on which they report. This is therefore an important section that clarifies the extent of the auditor’s responsibility.

The word ‘management’ is illustrative. The auditor’s report shall use the term that is appropriate in the context of the legal framework applicable to the entity and need not refer specifically to ‘management’. In some entities, the appropriate reference may be to those charged with governance.

It is inappropriate for an auditor to describe management’s responsibility in his audit report, unless the management and he have clearly agreed on it. It is therefore very important for the auditor to include the exact language that he intends to insert in his auditor’s report on management’s responsibility in the engagement letter that is signed by both the parties at the start of the audit.

The illustrative language of management’s responsibility paragraph (in a fair presentation framework scenario) for a company is as under:

- The Company’s Board of Directors is responsible for the matters stated in section 134(5) of the Companies Act, 2013 (“the Act”), with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance, (changes in equity) and cash flows of the Company, in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Act. This responsibility

Implementation Guide on Reporting Standards

also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statement that give a true and fair view and are free from material misstatement, whether due to fraud or error.

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

In circumstances, where the nature of the entity or its jurisdiction casts additional responsibilities on the management in respect of the financial statements, the auditor may deem it appropriate to suitably add those responsibilities in this paragraph as well as in the engagement letter.

The management's responsibility section cannot be qualified, although the auditor may include a qualification in the auditor's report in accordance with the requirements of SA 705 (Revised). Similarly, even when there is no material uncertainty and the company's financial statements are prepared on a going concern basis, the management's responsibility section must include the going concern paragraph, as stated above.

Implementation Guide on Reporting Standards

A question that arises is that if the auditor finds that the internal controls are not up to his expectations, should he 'qualify' the management's responsibility paragraph? The answer is clearly "no". The management's responsibility section cannot be qualified. This section's limited purpose is to recite the fact that the management is responsible for the design, implementation and maintenance of internal controls. If the auditor subsequently finds that their design, implementation or maintenance is so poor that it entails a qualification, then the ideal position of such a qualification would be in the auditor's opinion section if it also results into a modified opinion on the financial statements (as explained in Question 6 above).

Question 15: What happens when those responsible for oversight of the financial reporting process are different from the management (i.e., those who fulfill the responsibilities for preparing financial statements and assessment of going concern) as per paragraph 34 of SA 700 (Revised)?

Response 15: There could be situations when some, but not all, of the individuals involved in the oversight of the financial reporting process are also involved in preparing the financial statements. Under such circumstances, the auditor's report should clearly title the responsibilities for the financial statements as 'Responsibilities of Management and Those Charged with Governance'.

This is more likely to arise in the case of consolidated financial statements when the holding company's board of directors (i.e., those charged with governance) would be responsible for the consolidated financial statements and the board of directors of components (i.e., management) would be responsible for the respective financial statements of the components.

Implementation Guide on Reporting Standards

Question 16: What is the Auditor's Responsibility for the audit of the financial statements paragraph?

Response 16: Like the management's responsibility paragraph, the auditor's responsibility for the audit of the financial statements paragraph (hereinafter referred as auditor's responsibilities paragraph) is also an important paragraph since the auditor makes certain very important assertions in this paragraph about the work that he has done.

The illustrations provided in SA 700(Revised), contain illustrative wordings for the auditor's responsibility paragraph. The illustrative language of an auditor's responsibility paragraph (in a fair presentation framework scenario) is as under:

- Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
- As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
 - 1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not

Implementation Guide on Reporting Standards

detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- 2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Companies Act, 2013, we are also responsible for expressing our opinion on whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls¹¹.
- 3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 4) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may

¹¹ In circumstances when the auditor does not have responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements (for example, for audit of financial statements of non-corporate entities), this sentence would be worded as follows: "Obtain an understanding of internal control relevant to the audit 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."

Implementation Guide on Reporting Standards

- cause the entity to cease to continue as a going concern.
- 5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - 6) Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
 - 7) Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
 - 8) From the matters communicated with those charged with governance, determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. (Note: This point is required to be given in case of audits of all such entities for which key audit matters are communicated in accordance with SA 701)

Implementation Guide on Reporting Standards

A key assertion that is made in this paragraph is that the audit was conducted in accordance with the SAs. SA 200¹², which in a way is the “parent standard” on auditing, prohibits the auditor from representing compliance with SAs in the auditor’s report, unless the auditor has complied with the requirements of this SA and all other SAs relevant to the audit.

This is a very broad and onerous assertion for an auditor to make. If during a subsequent review of the audit process, it is found that some of the audit procedures detailed in the SAs were not in fact complied with, it may tantamount to the auditor making a deliberately false declaration in his report and the consequences for the auditor could be serious.

It would therefore be advisable for the auditor signing the audit report to ensure that the audit team plans and performs audits in a way that covers all the relevant SAs. Subsequently, when reviewing the audit file, he should ensure that the auditing standards’ compliance checklist (including compliance with SQC 1¹³) has been thoroughly looked into. If, in certain circumstances, a departure has been made from compliance with SAs, a detailed memorandum explaining the reasons for such a departure and the alternate procedures performed to overcome such non-compliance should be kept in the audit working papers file.

It is one thing to have done the work and another to be able to prove that such work was indeed done. Notwithstanding the Standard dealing with Documentation, SA 230¹⁴, and other specific references to documentation in other SAs, looking to the generality of the assertion being made, an auditor would be well advised to adequately document the work performed and conclusions arrived at. This is especially

¹² SA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing.

¹³ SQC 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

¹⁴ SA 230, Audit Documentation.

Implementation Guide on Reporting Standards

critical in instances where the auditor has applied his professional judgment in a situation where more than one view might have been possible.

Question 17: Where should the *Auditor's Responsibility paragraph* be located?

Response 17: The description of the auditor's responsibility shall be included:

- Within the body of the auditor's report;
- Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix; or
- By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or the applicable auditing standards expressly permit the auditor to do so.

Given that the Companies Act, 2013 has not specifically provided for a website of an appropriate authority where the auditor's responsibility paragraph can be located, auditors may be well advised to either include the same within the body of the auditor's report or in an appendix, as stated above.

Question 18: Apart from including in the auditor's responsibility paragraph, is there a requirement for all entities to have a separate paragraph on going concern in the auditor's report?

Response 18: Where there is a requirement as per SA 570 (Revised)¹⁵ for inclusion, the auditor's report is required to contain a separate paragraph on 'going concern' with a heading, 'Material Uncertainty Related to Going Concern'. In short, the requirement for a separate paragraph over and above the inclusion in the auditor's responsibility paragraph is in the event where there is a material uncertainty that

¹⁵ SA 570(Revised), 'Going Concern' which is effective for audits of financial statements for periods beginning on or after April 1, 2017.

Implementation Guide on Reporting Standards

casts a significant doubt on the ability of an entity to continue as a going concern and disclosure in the financial statements are adequate (earlier included as an Emphasis of Matter as per SA 570). However, if the auditor concludes that there is a material uncertainty and the disclosure given in the financial statements are inadequate, the auditor should modify the audit report in accordance with the requirements specified in SA 705(Revised).

Question 19: Where an entity does not have any material uncertainty regarding the entity's ability to continue as a going concern, should the *Auditor's Responsibility paragraph* continue to include the disclosure as required by paragraph 39(b)(iv) of SA 700 (Revised)?

Response 19: Yes, even if there is no material uncertainty regarding an entity's ability to continue as a going concern, the auditor's responsibility paragraph regarding going concern would need to be included. This is because the auditor's responsibility paragraph provides a summary of responsibility, including going concern assessment.

Question 20: What is new in the basis for opinion paragraph and whether this paragraph should be included in all audit reports, whether modified or not?

Response 20: Earlier, the basis for opinion paragraph was required only in case of modified audit reports. The basis for opinion paragraph now is mandatorily required to be provided in all the audit reports, whether modified or not. It requires the auditor to make specific assertion of conducting an audit in accordance with the Standards on Auditing, to refer to auditor's responsibility paragraph, to include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled other ethical responsibilities, and whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion. Specific reference is required to be made to the Code of Ethics issued by the ICAI.

Implementation Guide on Reporting Standards

Illustrative paragraph for Basis for Opinion in case of audit of standalone financial statements of a company:

"We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion".

Question 21: Is there a requirement for all entities to have a separate paragraph on key audit matters in the auditor's report?

Response 21: No, this is mandatorily required only in the case of listed entities. Key audit matters may sometimes be required for inclusion by law or regulation. In other cases, an auditor may include key audit matters in the auditor's report on a voluntary basis. Refer Implementation Guide to SA 701 issued by the Auditing and Assurance Standards Board of ICAI for detailed guidance.

Question 22: How and where should materiality be described in the auditor's report?

Response 22: SA 700(Revised) requires the auditor to state that misstatements can arise from fraud or error, and either:

- Describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements; or

Implementation Guide on Reporting Standards

- Provide a definition or description of materiality in accordance with the applicable financial reporting framework.

An Illustration for the aforesaid requirement for inclusion in the auditor's responsibility paragraph is hereunder:

"Misstatements can arise due to fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements".

Whilst there is no requirement to provide the amount of materiality that was considered by the auditor in the planning and performance of the audit, it is observed that in many jurisdictions across the world who have adopted ISA 700 (Revised), there are instances where the amount of materiality has been included in the auditor's report.

Question 23: Consequent to the enhancement in the auditor's responsibility paragraph, is there a real increase in the auditor's responsibility insofar as the audit is concerned?

Response 23: No, the auditor's responsibility remains the same. SA 700(Revised) requires the auditor to put out to the readers of the auditor's report, such responsibility in a more enhanced manner.

To explain a few:

- The auditor has to clearly state that he evaluates the appropriateness of accounting policies used and reasonableness of accounting estimates and related disclosures made by the management.

Whilst the auditor as part of his audit procedures, does evaluate all what has been stated in the aforesaid paragraph, he now has to specifically include such responsibility in the audit report.

- The auditor has to conclude on the appropriateness of

Implementation Guide on Reporting Standards

management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, he is required to draw attention in his auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify his opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

Whilst the auditor would assess the appropriateness of management's use of the going concern basis as required by SA 570 (Revised), he has to now specifically state such responsibility and situations under which the audit report would be modified.

- From the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in his auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, he determines that a matter should not be communicated in his report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Whilst the auditor would perform all the procedures as required by SA 701, insofar as key audit matters are concerned, a specific mention of the process the auditor follows to determine which matters are key audit matters for inclusion in the audit report, is required to be made in the auditor's responsibility paragraph, where applicable.

Question 24: Does the auditor still need to report on other legal and regulatory requirements?

Response 24: Yes, in case of a company, the requirement to report on other legal and regulatory requirements is as per Section 143(3) of the Companies Act, 2013. In accordance with paragraph A54 of SA 700 (Revised) and the illustrations of auditor's report provided in SA 700 (Revised), the auditor must include his reporting on requirements of the Companies Act, 2013 as part of his report on the general purpose financial statements of a company.

Question 25: How is an unmodified opinion worded generally for non-corporates entities in case of a fair presentation framework and in case of a compliance framework?

Response 25: The opinion paragraphs in the illustrative auditor's reports given at the end of this SA are reproduced below.

Under a fair presentation framework:

<< We have audited the financial statements of ABC & Associates (the entity), which comprise the balance sheet as at March 31, 20XX, and the profit and loss account, (and statement of cash flows)¹⁶ for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the entity as at March 31, 20XX, and of its financial performance (and its cash flows)¹⁷ for the year then ended in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI). >>

Under a compliance framework:

<< We have audited the financial statements of ABC &

¹⁶ Where applicable.

¹⁷ Where applicable.

Implementation Guide on Reporting Standards

Associates (the entity), which comprise the balance sheet as at March 31, 20X1, and the Profit and Loss Account (and the cash flow statement)¹⁸ for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Question 26: How should an unmodified opinion be worded in case of a fair presentation framework under the Companies Act 2013?

Response 26: Considering the fact that Schedule III of the Companies Act, 2013 prescribes the form and contents of the financial statements of companies in India, it is appropriate for the auditor to word the opinion paragraph in conformity with Section 143(2) of the Companies Act, 2013 to the extent that it meets the spirit (rather than the letter) of the law as well as meets the needs of this SA.

The following wording should be used:

<< In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 20XX, and its profit/loss, (changes in equity, where applicable) and its cash flows for the year ended on that date. >>

It needs to be noted that presently, the financial reporting framework that is referred to as “accounting principles generally accepted in India” comprises the Accounting Standards and other accounting pronouncements issued by the Institute of Chartered Accountants of India that are also applicable to non-corporate entities. For companies, the

¹⁸ Where applicable.

Implementation Guide on Reporting Standards

financial reporting framework comprises of and should be described as the “Accounting Standards prescribed under section 133 of the Companies Act, 2013”.

Question 27: Is it possible for the financial statements to be prepared in accordance with two financial reporting frameworks and if so, how is auditor’s opinion expressed?

Response 27: In some cases, the financial statements may represent that they are prepared in accordance with two financial reporting frameworks (e.g., Accounting Standards referred to in section 133 of the Companies Act, 2013 and the IFRSs). 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.

If, for instance, the local country GAAP of a jurisdiction is very slightly different from the IFRSs, the management may prepare a single set of financial statements that are simultaneously in accordance with both the financial reporting frameworks.

Each framework is considered separately in forming an auditor’s opinion. If the financial statements are found to be in compliance with each of the frameworks, the auditor may issue two separate opinions, one for compliance with each framework, in either two different sentences or in a single sentence, e.g., “*the financial statements give a true and fair view in accordance with the accounting principles generally accepted in India and with the International Financial Reporting Standards*”.

Implementation Guide on Reporting Standards

If the financial statements are in compliance with one framework but not the other framework, an unmodified opinion may be given on the former under this SA and a modified opinion on the latter under SA 705 (Revised).

Question 28: If the financial statements are prepared as per one financial reporting framework but contain information on the extent of compliance with another financial reporting framework, what is the auditor's responsibility in such a situation?

Response 28: Such a case could be, for example, where the Notes to the Financial Statements include a Note giving reconciliation of Indian GAAP profit with, say, US GAAP. As this information forms part of the financial statements, it gets covered by the auditor's opinion.

What this means is that the financial statements as covered by the auditor's report in effect assert that the said reconciliation to US GAAP is free of material misstatement, due to fraud or error. In order to be able to make such an assertion, the auditor would obviously have to audit this financial information (i.e., the reconciliation) and obtain audit assurance that the numbers in the reconciliation are arrived at after considering all the applicable provisions of US GAAP and are in compliance with at least the recognition and measurement principles of US GAAP. However, nothing is specifically required to be reported in the opinion in case such reconciliation is properly audited and presented.

Question 29: How should an auditor frame his opinion where a statute or court order or government directive/permission allows an entity to prepare financial statements without meeting a GAAP requirement?

Response 29: Sometimes the Central Government or a court of law, say, at the request of the entity, permits it to follow a specific accounting treatment in respect of a particular transaction. For example, an entity may be permitted to account for a certain type of income or

Implementation Guide on Reporting Standards

expenditure on cash basis or on a deferral basis that may not be permitted by the Accounting Standards. The question is whether a departure from the framework under such circumstances requires an auditor to qualify his report?

The answer is “no”. In such a situation, the departure is not a non-compliance with the framework but compliance with a modified framework. If the effect of doing this is material, the auditor should describe the resultant deviation from the framework in sufficient detail in an Emphasis of Matter Paragraph.

Question 30: How the report on other legal and regulatory requirements is separated from the opinion paragraph?

Response 30: One of the example could be that under the Companies Act, 2013, the auditors are required to respond to a set of questions pertaining to the company under the Companies (Auditor’s Report) Order, 2016 (CARO). The responses are normally given in an Annexure that is referred to in the auditor’s report. Under this SA, the reference paragraph in the auditor’s report will now be included in a separate section of the audit report following the Auditor’s Responsibility paragraph. This section may be titled “*Report on Other Legal and Regulatory Requirements*”.

Another example is of the assertions required to be made under Section 143(3) of the Companies Act, 2013 on seeking and obtaining all the information and explanations necessary for audit, keeping of proper books of account, agreement of balance sheet and statement of profit and loss with the books, compliance with accounting standards prescribed under section 133 of the Companies Act, 2013, disqualification of directors and adequacy of the internal financial controls over financial reporting. All these assertions are made in the “*Report on Other Legal and Regulatory Requirements*” section. If any of these assertions is negative or partial, that fact needs to be brought out while reporting on that assertion.

Implementation Guide on Reporting Standards

The question one may ask is whether the audit opinion will be modified if one or more of the legally required assertions above is negative. The answer will depend on the merits of each case. For example, if there has been a material departure from Accounting Standards prescribed under Section 133 of the Companies Act 2013 as reported in the “*Report on Other Legal and Regulatory Requirements*” section of the audit report, the opinion will also obviously need to be modified. If all the information and explanations have not been provided to the auditor, it is likely that there may have been a scope restriction on the audit which, if material and pervasive, would require a disclaimer of opinion. But if a director is disqualified from being a director, it may have no bearing on the true and fair view of the financial statements, and a clean opinion may be given.

Question 31: How does an auditor sign an auditor’s report?

Response 31: This SA mentions that “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 intention of this SA here is not to have two separate signatures, one in personal name and one in the firm name, but that the partner signing should sign in his personal name for and on behalf of the firm which has been appointed as the auditor with the name and registration number of the firm also mentioned as signatory.

Where a firm is appointed as auditor, the suggested manner to sign audit report would be:

<p>For XYZ and Co Chartered Accountants Firm’s registration number</p>
<p>Signature Name of the Member Signing the Audit Report</p>

Implementation Guide on Reporting Standards

Designation (partner/proprietor) Membership number
Place of signature
Date:

Question 32: What is the significance of the date of the auditor’s report?

Response 32: Date of the auditor’s report informs the user that the auditor has considered subsequent events up to that date in making his audit report¹⁹ and makes the auditor responsible for events and transactions up to that date.

Further, the auditor’s report cannot be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to base opinion on the financial statements. Such evidence includes evidence that the financial statements, including notes, have been prepared and the recognised authority (in the case of a company, the board of directors) have asserted that they have taken the responsibility for such financial statements.

Also, since the financial statements are the responsibility of management, the auditor’s report should not be signed before the date of approval of the financial statements by the board of directors or equivalent governing body. It may, however, be dated after the date of the board meeting in which the financial statements are approved.

Question 33: Can an auditor sign the auditor’s report at a place other than the city where the registered office of the entity is situated? Do the directors and auditor need to sign the financial statements at the same location?

Response 33: SA 700 (Revised) does not contain any such requirement or mandate. The auditor should mention the

¹⁹ It is therefore important to ensure that the working paper on subsequent events is dated the same as the date of the auditor’s report and has been reviewed as at that date by the signing partner.

Implementation Guide on Reporting Standards

name of the place where he signs the audit report. For example, if the auditor signs the audit report when he is in Hyderabad, he should mention the place of signature as Hyderabad, irrespective of the fact that the registered office of the entity is in New Delhi or that directors may have signed the financial statements in Mumbai.

Question 34: How does the auditor comply with this SA if the law or regulation prescribes a format of auditor's report that is different from the format required under this SA?

Response 34: This situation frequently confronts an auditor in India. Various laws and regulatory agencies prescribe the form in which they expect the auditor's report to be given. This often creates a hard situation for an auditor, as he finds that he has performed audit as per the SAs but the form in which he is required to report puts a greater burden on him. For example, there are situations when the auditor is expected to "certify" the financial statements or to attest them as being "true and correct" rather than "true and fair". Also, in most cases the format prescribed does not have the management's and auditor's responsibility paragraphs.

The advice to auditors is that wherever they have the liberty to modify the prescribed format to broadly bring it in line with the requirements of this SA, they should do so to the extent possible. This is important from the viewpoint of achieving the fundamental objective of this SA, namely, to achieve consistency in reporting that promotes credibility for an auditor's report in the marketplace. So, for example, if the prescribed format does not have the responsibility paragraphs, the auditor may insert them without disturbing the other layout of the prescribed format of the audit report.

This SA requires that if the difference between the prescribed format and this SA are only in layout and some wording, the auditor needs to assess if, at a minimum, the various elements required under paragraph 49 of this SA form a part of the prescribed format. If they are all there but

Implementation Guide on Reporting Standards

in a different layout, he may give his report in the prescribed format, so long as the basic principles of this SA are met.

Paragraph 49 of this SA requires an auditor's report to contain, at a minimum, the following elements: (a) title, (b) addressee, (c) opinion section with reference to the applicable financial reporting framework, (d) identification of the financial statements audited, (e) Auditor's independence, (f) management's responsibility, (g) auditor's responsibility for the audit with reference to SAs/ laws/ regulations, (h) signature, (i) place of signature and (j) date.

However, if the prescribed format of the audit report does not include the minimum elements required under paragraph 49 of this SA and if the auditor does not have the liberty to change the format to include the missing elements, then he cannot include a statement in the auditor's responsibility paragraph of the report that "*We conducted the audit in accordance with the Standards on Auditing specified under Section 143(10) of the Companies Act 2013*" or "*We conducted the audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India.*" As regard the other assertions that are made in the auditor's responsibility paragraph or elsewhere in the report, the auditor will have to determine if it is appropriate in the circumstances for him to make those assertions or if he should modify them to suit the exact circumstances.

Further, in some situations, the wordings of auditor's report (including the auditor's opinion) may sometimes be prescribed by the law or regulation applicable to the client. While mostly that is not the case, it is possible that the prescribed terms may be significantly different from the requirements of SAs.

When this is so, SA 210 requires an auditor to evaluate:

- Whether users might misunderstand the assurance obtained from the audit, and if so
- Whether providing additional explanation in the auditor's report can mitigate such misunderstanding.

Implementation Guide on Reporting Standards

Where the auditor concludes that even additional explanation in the auditor's report cannot mitigate possible misunderstanding, SA 210 requires the auditor not to accept the audit engagement.

If the applicable law or regulation compels an auditor to accept such an engagement, then as per SA 210, such an audit does not comply with the SAs. The auditor when reporting on such audit therefore does not include any reference to the audit having been conducted in accordance with the SAs in auditor's report.

Also, it goes without saying that in no event should an auditor accede to making an assertion for which he has not been able to perform adequate procedures or for which there was a scope limitation or inadequate evidence. Under such circumstances, the auditor is well advised to give a modified report under SA 705(Revised) or an Emphasis of Matter Paragraph under SA 706(Revised), as may be appropriate.

Question 35: Can an audit be done under two different sets of auditing standards: such as the SAs and International Standards on Auditing (ISAs)? How will reporting be done in such a situation?

Response 35: This situation often arises when the Indian GAAP financial statements of a foreign subsidiary or a branch of a foreign company are statutorily audited for complying with the local requirements under SAs; and for parent reporting, where the audit under ISAs is required, assuming that the year-ends are the same for both the reports. In such a situation, an auditor performs audit procedures that simultaneously meet the requirements of both sets of Standards, in order to prevent from doing two audits.

If the two sets of Standards do not have any conflict that would require the auditor to form a different opinion under each of them, then his audit report may refer to compliance with both the Standards by specifically naming them in his

Implementation Guide on Reporting Standards

report. e.g. “*We conducted the audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India and the International Standards on Auditing*”.

If a conflict exists, the auditor needs to give two separate auditor’s reports, where, for example, one could include a clean opinion and the other may include an emphasis of matter paragraph or modified opinion, as may be necessary.

Question 36: How does an auditor deal with a situation where the audited entity voluntarily provides supplementary information or where a law or regulation requires additional information that is outside the scope of the applicable financial reporting framework?

Response 36: At the outset, supplementary information, in this context, should not be confused with “*Other Legal or Regulatory Requirements*” mentioned in Question 30 above.

Where there is such information embedded in the financial statements, the auditor should consider discussing with the client if such information could be displayed separately outside the financial statements. If that is possible, there is no further issue.

Where such supplementary information (e.g., a GAAP reconciliation between Indian GAAP and IFRS, included in the Notes to the Financial Statements) cannot be clearly differentiated from the rest of the financial statements, the auditor’s opinion shall have to cover that too. This means that the auditor would need to audit this information and report on it, in the ordinary course.

If the management (or law/ regulation) requires such information not to be subjected to audit, the auditor must ensure that such information is presented in a way that clearly shows that it is “unaudited”. For example, if prior period numbers that were not audited are presented as comparative information, the columns giving such information could be clearly labeled as “Unaudited” and an

Implementation Guide on Reporting Standards

explanatory note may be given to explain why such unaudited information is presented. Alternatively, the relevant Notes to the Financial Statements that include such information could be placed together in a separate section of the Notes that is clearly labeled as “Unaudited”.

A question arises as to whether the auditor will have any responsibility for the supplementary information included in the financial statements if it is labeled as “Unaudited”? The answer is “yes”. Under SA 720(Revised),²⁰ the auditor still has the responsibility to read such information to identify if it contains any material inconsistency with the audited financial statements. If so, he will have to deal with it as per SA 720(Revised).

²⁰ SA 720(Revised), The Auditor’s Responsibilities Relating to Other Information.

Chapter 4

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

Introduction to the Standard

4.1 SA 705(Revised) deals with the auditor's responsibility to issue an appropriate audit report in circumstances when, in forming an opinion in accordance with SA 700 (Revised), the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

4.2 SA 705(Revised) establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:

- (a) The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
- (b) The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

Given below are the responses on key issues of SA 705(Revised) in a Question–Answer format.

Question 1: For which audits does the auditor need to follow this revised reporting standard i.e. SA 705 (Revised)?

Response 1: The revised reporting standard, SA 705(Revised) is applicable for audits of financial statements for periods beginning on or after April 1, 2018.

Implementation Guide on Reporting Standards

Question 2: Is SA 705(Revised) applicable for audit reports signed after April 1, 2018?

Response 2: Since the revised reporting standard, SA 705(Revised) is applicable for audits of financial statements for periods beginning on or after April 1, 2018, audit reports signed after April 1, 2018 pertaining to financial statements for periods beginning before April 1, 2018 will not be governed by SA 705(Revised).

Question 3: What is the difference between a “qualified” auditor’s report and a “modified” auditor’s report?

Response 3: In fact, it is not the auditor’s report which is “qualified” or “modified”, it is the audit opinion within the auditor’s report, which can be a “qualified opinion” or a “modified opinion”. Generally, the terms ‘qualified’ and ‘modified’ are loosely used interchangeably; however, there is a significant difference between the two terms.

When the auditor has no reservation on the financial statements (beyond the tolerance limits of materiality), he gives what is generally called a “*clean*” opinion. This is an auditor’s report containing an “unmodified opinion”, governed by SA 700(Revised) which has been discussed in Chapter 3.

Then there are auditor’s reports containing “modified opinions”. These are issued where the auditor has some reservation about the financial statements. Under SA 705 (Revised) there can be three types of “modifications” to an auditor’s opinion: (a) a “qualified opinion”, (b) a “disclaimer of opinion”, or (c) an “adverse opinion”.

So, a qualified opinion is one kind of a modified opinion, the other two being either a disclaimer or an adverse opinion. When an audit opinion is other than “clean”, the standard language of the opinion in SA 700(Revised) is modified to express the auditor’s reservation about the financial statements.

Question 4: What are the circumstances requiring issue of modified opinions?

Response 4: There are two circumstances as given below:

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

Question 5: How does the auditor decide the nature of modification that should be made?

Response 5: The auditor has to evaluate the situation carefully before making his judgment as to the nature of modification. It is very important that the auditor, in terms of the principles laid down in SA 230, "Audit Documentation", also documents in his work papers, how and why he reached this professional judgment.

There can be two situations:

- (a) There is a matter for which the auditor has sufficient appropriate audit evidence to determine that due to such matter, the financial statements are materially misstated, and
- (b) There is a matter for which the auditor is unable to obtain sufficient appropriate audit evidence to determine whether due to it, the financial statements may be materially misstated.

In either case, the audit report will be modified, but the nature of modification can be different.

After this, the auditor uses his professional judgment to determine if the effects or possible effects of the matter on the financial statements is/ are pervasive or not pervasive. Again, depending on the extent of pervasiveness, the nature of modification can be different.

Implementation Guide on Reporting Standards

The following table summarises the criteria and the nature of modification in different situations:

<i>Nature of matter giving rise to modification</i>	<i>Auditor's judgment about the Materiality and Pervasiveness of the Effects or Possible Effects on the financial statements</i>	
	Material but Not Pervasive	Material and Pervasive
Financial Statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Question 6: What is a 'material misstatement'?

Response 6: For financial statements to comply with an applicable financial reporting framework, the transactions and events as reflected therein need to comply with four aspects. These are:

- (a) Recognition
- (b) Measurement
- (c) Classification and presentation, and
- (d) Disclosure

A "*misstatement*" of the financial statements occurs when there is a difference between how each of these aspects is reported by the management in the financial statements and how it should be reported as per the applicable financial reporting framework.

As per SA 450, "Evaluation of Misstatements Identified during the Audit", material misstatement of the financial statements may arise in relation to:

Implementation Guide on Reporting Standards

- (a) The appropriateness of the selected accounting policies;
- (b) The application of the selected accounting policies, or
- (c) The appropriateness or adequacy of disclosures in the financial statements.

The selected accounting policies may not be consistent with the applicable financial reporting framework, or the financial statements (including the Notes) do not reflect the events and transactions in a manner that achieves fair presentation, for example, where a change in accounting policy from prior period is not adequately reported. There might also be inconsistency in application of accounting policies between periods or transactions and events of a similar nature or the method of application of the accounting policy is erroneous. As regard disclosures, all the required disclosures may not be given or, if given, may not be presented as they should be, or the financial statements may not give disclosures that ensure a fair presentation (that is, they do not contain disclosures of events or transactions that are needed to properly reflect a true and fair view).

It is often wrongly believed that a “*material misstatement*” is only a recognition and measurement issue alone. In other words, there is a perception that one does not need to modify an opinion, unless the rupee amounts are misstated. Due to this perception, auditors may fail to modify their opinion in respect of material misstatement of the financial statements caused by inappropriate classification or presentation, or inadequate disclosure.

Modifying an audit opinion where such modification is warranted is a very important decision that an auditor has to make. It is a decision that may subsequently be challenged by the client, or called into question by a regulator, or by investigating agencies and courts of law in the course of a fraud or any other investigation. Therefore, in reaching his decision on modifying or not modifying an auditor’s report, the auditor should ensure that the decision is not only in accordance with the related accounting and auditing pronouncements but one that will stand up to scrutiny.

Implementation Guide on Reporting Standards

It is therefore crucial for an auditor, when making an evaluation for purposes of modifying or not modifying an audit opinion to properly understand the meaning, context and importance of these three key concepts: “*evidence*”, “*materiality*” and “*misstatement*”. Each of these topics have been dealt with in separate Standards on Auditing. For example:

- SA 320, Materiality in Planning and Performing an Audit.
- SA 450, Evaluation of Misstatements Identified during the Audit.
- SA 500, Audit Evidence.
- SA 501, Audit Evidence – Specific Considerations for Selected Items.
- SA 505, External Confirmations.
- SA 570 (Revised), Going Concern.

Attention is also invited to SQC 1, wherein, it is stated that the firm should establish policies and procedures designed to provide it with reasonable assurance that: (a) Appropriate consultation takes place on difficult or contentious matters; (b) Sufficient resources are available to enable appropriate consultation to take place; (c) The nature and scope of such consultations are documented; and (d) Conclusions resulting from consultations are documented and implemented.

Question 7: What is inability of an auditor to obtain sufficient appropriate audit evidence?

Response 7: Ordinarily, an auditor would be unable to obtain sufficient appropriate audit evidence in the following situations:

- (a) *Circumstances beyond the control of an entity* – For example, the entity’s accounting records are destroyed by fire or are seized by an investigating agency;
- (b) *Circumstances related to the nature and timing of the auditor’s work* – Examples: (a) for equity accounting of

Implementation Guide on Reporting Standards

an associate, adequate financial information of the associate is not available; (b) the auditor is appointed after year-end, and is therefore unable to observe physical verification of inventory; or (c) where the controls of the entity are not effective and the auditor concludes that performing substantive procedures alone is not sufficient;

- (c) *Limitation imposed by management* – For example, management prevents the auditor from observing inventory count or from requesting external confirmation of specific account balances, or imposes unrealistic time deadlines within which to issue an auditor's report.

Question 8: If the management imposes a scope limitation after the auditor has accepted the engagement, what should he do?

Response 8: As a first step, the auditor should request the management to remove the scope limitation. If the management refuses, he should communicate with those charged with governance and simultaneously explore ways to perform alternative procedures to obtain sufficient appropriate audit evidence.

If the auditor concludes that he is still unable to get sufficient appropriate audit evidence, he should determine if the possible effect of undetected misstatements is likely to be material but not pervasive. If so, he should qualify his opinion.

If he concludes that the possible effect of undetected misstatements is likely to be both material and pervasive and qualification of the opinion alone would not suffice, he should withdraw from the audit, if permitted to do so, by the applicable law or regulation. But where the law or regulation does not permit withdrawal of the auditor for such reason after accepting an audit, he should give a disclaimer of opinion.

Implementation Guide on Reporting Standards

Question 9: When is the effect of a misstatement or a possible misstatement considered to be “pervasive”?

Response 9: As can be seen from the question itself, both a material misstatement (where evidence is available) and a possible misstatement (where evidence is not available) are to be evaluated for being pervasive or otherwise. (Refer the table in response to Question 5)

The effect of a material misstatement/possible misstatement is *Pervasive*, when:

- (a) Where it pertains to an amount(s) in the financial statements, it is not confined to specific components, accounts or items of the financial statements. If it is so confined, it represents or could represent *a substantial portion* of the financial statements; or
- (b) Where it pertains to disclosures, such disclosures or the matter(s) therein are / could be *fundamental* to the user’s understanding of the financial statements.

For example, where an auditor detects a bias in the valuation of estimates on the assets side of a balance sheet (such as increasing the useful lives of fixed assets without justification, not treating impairment in investments as other than temporary, treating doubtful receivables as good, not providing adequately for inventory obsolescence, etc.) all building up to an overstatement of earnings, the aggregate effect of which, may be material to the financial statements taken as a whole, then the possible misstatement is said to be pervasive.

In another example, when the misstatement is only in valuing inventory of a major raw material at cost instead of at net realisable value and when clear evidence is available that the fair value of the material was substantially lower than cost and the selling price of the finished product is pegged to current raw material prices, and the difference in valuation, if booked, could wipe out a substantial portion of the profit before tax of the entity, the misstatement is said to be pervasive.

Implementation Guide on Reporting Standards

In yet another example, the entity is unable to resolve to the satisfaction of the auditor, a going concern issue in relation to one of its major subsidiaries, in which the entity has a substantial exposure in terms of equity, debt and guarantee commitments and it refuses to either make a provision or a satisfactory disclosure of the matter, the misstatement is said to be pervasive.

Question 10: There is a misstatement or a series of misstatements in the financial statements that the auditor evaluates as material and pervasive to the financial statements, individually or in the aggregate. The auditor explains each such misstatement by giving separate paragraphs in his audit report and then states in his opinion that *'except for the effects/ possible effects of the matters stated in the said paragraphs, the financial statements give a true and fair view'*... Is this permissible?

Response 10: No. The auditor's duty is to evaluate in case the effect of all the misstatements and possible misstatements in the aggregate is material and pervasive to the financial statements, taken as a whole. If that is true, he cannot give an overall qualified opinion. He has to give an adverse opinion, as in this instance, he has been able to obtain all the information to give an opinion and that there is no scope limitation. This means he has to state in the audit opinion that the financial statements *do not give* a true and fair view. This is a very important and a significant matter, where professional judgement needs to be well-founded.

Question 11: There is a possible misstatement or a series of possible misstatements in the financial statements or a mix of misstatements and possible misstatements that the auditor evaluates as material and pervasive to the financial statements, individually or in the aggregate. The auditor explains each such misstatement by giving separate paragraphs in his audit report. In case of misstatements he quantifies the impact thereof. In case of possible misstatements he

Implementation Guide on Reporting Standards

states the matter and expresses his inability to quantify the impact thereof in the absence of availability of evidence. He then states in his opinion that except for the possible effects of the matters stated in the said paragraphs, the financial statements give a true and fair view... Is this permissible?

Response 11: No. The auditor's duty is to evaluate if the possible effect of a single possible misstatement or a number of possible misstatements taken together, is likely to be material and pervasive to the financial statements, taken as a whole. If that is true, he cannot give an overall qualified opinion. He has to give a disclaimer of opinion. This means he has to state in his audit opinion that due to the significance of the matters described, he has been unable to obtain sufficient appropriate audit evidence, and accordingly he *is unable to express an opinion* on the financial statements.

In case of a mix of misstatements and possible misstatements that are singly and/or collectively evaluated as being material and pervasive, the auditor would have to decide if his opinion should be adverse or a disclaimer. It cannot be both, a disclaimer for some matters and adverse in respect of others, as such reporting would confuse the users. In such cases, the auditor should give an adverse opinion. This means he has to state that the financial statements *do not give* a true and fair view.

Question 12: In the situations described in Questions 10 and 11, if the misstatements or possible misstatements or a mix of the two are evaluated by the auditor as being material but not pervasive to the financial statements, can he give a narration of the material misstatements, possible misstatements or a mix of the two in separate paragraphs of his report and then, giving reference to those paragraphs, state that 'except for the possible effects of the matters stated in the said paragraphs the financial statements give a true and fair view'...?

Response 12: Yes. Where the aggregate effect of

Implementation Guide on Reporting Standards

misstatements or possible misstatements is material but not pervasive, the auditor can express a qualified opinion. Needless to mention, the auditor needs to exercise his best professional judgement for determining whether the impact is material but not pervasive.

Question 13: What does this Standard bring out in terms of an auditor's responsibility for correct reporting?

Response 13: The auditor's opinion on a set of financial statements is read very keenly by a variety of users, who make important economic decisions based on it. The distinction between a clean opinion, a qualified opinion, a disclaimer of opinion and an adverse opinion is therefore critical for such users. An opinion that is inappropriately worded could result in a user making a wrong economic decision that could have significant financial implication and for which he could hold the auditor to be accountable.

Using professional judgement in making his decision for modifying or not modifying his opinion is of course the privilege of an independent auditor. But such professional judgement has to be made within the framework of the accounting and auditing standards, in keeping with the competencies expected from the training, knowledge and experience of the auditor, as well as due processes of internal/ external consultation and documentation. It is important therefore to understand what using "professional judgement" entails.

SA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing*, deals with the subject of professional judgement as well as with other fundamental matters of great importance to auditors. Extracts from that SA are given below for ready reference:

“Professional Judgment

16. The auditor shall exercise professional judgment in planning and performing an audit of financial statements. (Ref: Para. A23- A27)

Implementation Guide on Reporting Standards

Professional Judgment (Ref: Para. 16)

A23. Professional judgment is essential to the proper conduct of an audit. This is because interpretation of relevant ethical requirements and the SAs and the informed decisions required throughout the audit cannot be made without the application of relevant knowledge and experience to the facts and circumstances.

Professional judgment is necessary in particular regarding decisions about:

- *Materiality and audit risk.*
- *The nature, timing, and extent of audit procedures used to meet the requirements of the SAs and gather audit evidence.*
- *Evaluating whether sufficient appropriate audit evidence has been obtained, and whether more needs to be done to achieve the objectives of the SAs and thereby, the overall objectives of the auditor.*
- *The evaluation of management's judgments in applying the entity's applicable financial reporting framework.*
- *The drawing of conclusions based on the audit evidence obtained, for example, assessing the reasonableness of the estimates made by management in preparing the financial statements.*

A24. The distinguishing feature of the professional judgment expected of an auditor is that it is exercised by an auditor whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgments.

A25. The exercise of professional judgment in any particular case is based on the facts and circumstances that are known by the auditor. Consultation on difficult or contentious matters during the course of the audit, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, such as that required by SA 220 assist the auditor in making informed and reasonable judgments.

Implementation Guide on Reporting Standards

A26. Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of auditing and accounting principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the auditor up to the date of the auditor's report.

A27. Professional judgment needs to be exercised throughout the audit. It also needs to be appropriately documented. In this regard, the auditor is required to prepare audit documentation sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the significant professional judgments made in reaching conclusions on significant matters arising during the audit. Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate audit evidence.”

It should also be noted that when an auditor expects to give a modified opinion, he has a duty to first discuss the matter giving rise to the expected modification with those charged with governance which generally means with the audit committee, board of directors, or equivalent governing body, and not just with the management or the Chief Financial Officer.

Question 14: If there are multiple uncertainties, but for each of those uncertainties the auditor has been able to obtain sufficient appropriate audit evidence, can he still give a disclaimer of opinion on the financial statements?

Response 14: Such a situation is rare but possible. If the auditor concludes that notwithstanding his having obtained sufficient appropriate audit evidence regarding individual uncertainties, it is not possible for him to form an overall opinion on the financial statements due to the possible interaction of the uncertainties and their possible cumulative effect on the financial statements, he would need to give a disclaimer of opinion.

Implementation Guide on Reporting Standards

Question 15: Can an auditor give an unmodified opinion in respect of one (or more) financial statements or account or element or item of a financial statements while giving an adverse or disclaimer of opinion on the financial statements as a whole?

Response 15: No. If an auditor is engaged to audit and report on the financial statements of an entity and he concludes that his overall opinion on those financial statements is either disclaimer or adverse, he cannot give in the same report an unmodified opinion in respect of a single financial statement or an account or element or item of a financial statement.

However, if he is engaged to audit and report under SA 805, “Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement”, where his engagement is to audit and report on a single financial statement or a specific account or element or item of a financial statement, he may give a separate unmodified report under that SA. The two reports, one under SA 805 and the other on the audit of financial statements as a whole, must be separate and with separate terms of engagement.

In another situation, where an auditor is engaged to report on a set of financial statements under two different financial reporting frameworks – say Indian GAAP and IFRSs, and instead of giving separate reports under each GAAP, he chooses to issue a combined report, he may give an unmodified opinion on the financial statements under one framework but an adverse opinion or disclaimer of opinion under the other framework. In such circumstances, he would have to word the report carefully in order to prevent any misinterpretation of his intent by the users.

Thirdly, even where he is appointed to audit and report on the financial statements as a whole, it would be possible for an auditor to give, for example, a disclaimer of opinion on the results of operations and cash flows but an unmodified opinion on the financial position of the entity in a situation

Implementation Guide on Reporting Standards

envisaged under SA 510, “Initial Audit Engagements – Opening Balances”, paragraphs 10 and A5. In this situation, he does not express any overall audit opinion on the financial statements, as a whole.

Question 16: Is there a difference in the way an audit opinion is modified now?

Response 16: Yes. Firstly, it may be reiterated that inserting an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor’s report is not considered to be a “modification” of the audit opinion. A separate Standard viz., SA 706 (Revised), ‘Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report’ now deals with these aspects.

Secondly, the opinion paragraph which is provided at the beginning of the audit report, is to be clearly titled as “*Qualified Opinion*” or “*Adverse Opinion*” or “*Disclaimer of Opinion*”, respectively and refers to the matter given in the “Basis for Modified Opinion” paragraph. Accordingly, the matter giving rise to modification is to be described in a separate Basis for Modified Opinion paragraph that follows the Opinion Paragraph also need to be titled as “*Basis for Qualified Opinion*” or “*Basis for Adverse Opinion*” or “*Basis for Disclaimer of Opinion*”, as may be appropriate.

Question 17: What does the Basis for Modified Opinion paragraph contain?

Response 17: The Basis for Modified Opinion paragraph at a minimum would contain all the elements specified by paragraph 28 of SA 700(Revised). However, when the auditor gives a disclaimer of opinion, the audit report should not include the following elements required by paragraphs 28(b) and 28(d) of SA 700 (Revised):

- reference to the auditor’s responsibilities paragraph; and
- statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor’s opinion.

Implementation Guide on Reporting Standards

Additionally, if there is a material misstatement in the financial statements that relates to specific amounts, including amounts given in the Notes, the auditor gives a description and a quantification of the misstatement. Where an accurate quantification is not possible but a management estimate is available, the auditor performs such audit tests on those management estimate as are possible, and clearly indicates that the amount quantified is based on management's estimate. (This could be presented in a Note with the auditor drawing reference to such Note in his report.) If it is impracticable for him to quantify or estimate the effect of the misstatement, he states so in the Basis for Modified Opinion paragraph.

If there is a material misstatement in the financial statements that relates to narrative disclosures, the auditor gives an explanation of how the disclosures are misstated.

If required disclosures are not made in the financial statements, the auditor is required to follow the following process:

- (a) He discusses the non-disclosure with those charged with governance²¹.

This could present a practical difficulty if the auditor's report is to be issued on the date of the audit committee meeting itself. The auditor may overcome this by seeking an audio/ video conference call with the audit committee or a one-on-one meeting with its chairperson and discuss the matter, well in advance of the scheduled audit committee meeting.

- (b) He describes the nature of the omitted information in the Basis for Modified Opinion paragraph, and

²¹ Wherever possible, communication with Those Charged with Governance should be in writing. Where such communication is done orally, it is advisable for the auditor to document the minutes of the conversation and, unless impracticable, send the minutes to the other party stating that he would presume confirmation unless objection is received. This creates evidence that he fulfilled his duty of communicating with Those Charged with Governance.

Implementation Guide on Reporting Standards

- (c) Unless prohibited by law/ regulation, he includes the omitted disclosures in his report, provided it is practicable to do so (e.g., it may not be practicable if the disclosures are not prepared by the management, or are not otherwise readily available to the auditor, or are far too voluminous to be included in the auditor's report) and he has obtained sufficient appropriate audit evidence about the omitted information.

If the modification is because of his inability to obtain sufficient appropriate audit evidence, the auditor provides the reasons for that inability. In such cases, the auditor should be careful that his explanations in the report about the said inability are his own assertions and not inadvertently an advocacy of the management's representations.

Where an auditor gives a disclaimer or an adverse opinion for a given reason that he explains in the *Basis for Disclaimer of Opinion* or *Basis for Adverse Opinion* paragraph but there are also other matters that would have independently merited a modification, he needs to describe and give the reasons and effects of those matters as well in the same paragraph.

Question 18: How is the Modified Opinion paragraph to be given?

Response 18: Where auditor's opinion is modified, the paragraph is titled as "*Qualified Opinion*" or "*Adverse Opinion*" or "*Disclaimer of Opinion*", as may be appropriate.

Qualified Opinion

Where the opinion is qualified due to material misstatement in the financial statements, the auditor uses the words: "Except for the effects of the matter(s) described in the Basis for Qualified Opinion paragraph, the accompanying financial statements present fairly in all material respects or give a true and fair view in accordance with the applicable financial reporting framework" (**Reporting under a fair presentation framework**)

Implementation Guide on Reporting Standards

Where the opinion is qualified due to material misstatement in the financial statements, the auditor uses the words: “Except for the effects of the matter(s) described in the Basis for Qualified Opinion paragraph, the accompanying financial statements have been prepared in all material respects in accordance with the applicable financial reporting framework” **(Reporting under a compliance framework)**

Where the qualification is because of inability to obtain sufficient appropriate audit evidence, the phrase to be used is: “Except for the possible effect(s) of the matter(s) described in the Basis for Qualified Opinion paragraph, the accompanying financial statements present fairly in all material respects or give a true and fair view in accordance with the applicable financial reporting framework” **(Reporting under a fair presentation framework)**

Where the qualification is because of inability to obtain sufficient appropriate audit evidence, the phrase to be used is: “Except for the possible effect(s) of the matter(s) described in the Basis for Qualified Opinion paragraph, the accompanying financial statements have been prepared in all material respects in accordance with the applicable financial reporting framework” **(Reporting under a compliance framework)**

It may be noted that use of the words “*Subject to*” for qualified opinions is discouraged under SA 705(Revised), as these words are considered to be not sufficiently clear or forceful.

Disclaimer of Opinion

Where the opinion is a disclaimer of opinion due to inability to obtain sufficient appropriate audit evidence, the auditor shall state that: “We do not express an opinion on the accompanying financial statements of the entity. Because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.”

Adverse Opinion

Where the auditor expresses an adverse opinion **under a fair presentation framework**, he states that “in his opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion paragraph, the accompanying financial statements do not present fairly or give a true and fair view in accordance with the applicable financial reporting framework...”

Where the auditor expresses an adverse opinion **under a compliance framework**, he states that “in his opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion paragraph, the accompanying financial statements have not been prepared, in all material respects, in accordance with the applicable financial reporting framework...”

Question 19: When a modified opinion is given, does the Auditor’s Responsibility paragraph also correspondingly change?

Response 19: Yes, only when the auditor gives a disclaimer of opinion. In case of disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor is required to amend the description of the auditor’s responsibilities to include only the following aspects:

- A statement that the auditor’s responsibility is to conduct an audit of the entity’s financial statements in accordance with Standards on Auditing and to issue an auditor’s report.
- A statement that, however, because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.
- The statement about auditor independence and other ethical responsibilities required by paragraph 28(c) of SA 700 (Revised).

Implementation Guide on Reporting Standards

Question 20: When a modified opinion is given, does the Basis for Opinion section also correspondingly change?

Response 20: Yes. When the auditor gives a modified opinion, the heading of 'Basis for Opinion' needs to be suitably changed based on the nature of modification (Basis for Qualified Opinion/ Basis for Adverse Opinion/ Basis for Disclaimer of Opinion).

For the content of Basis for Modified Opinion paragraph, please refer response to Question 17 above.

When the auditor gives a qualified opinion, the last sentence of the Basis for Qualified Opinion would state, "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion."

When the auditor gives an adverse opinion, the aforementioned last sentence of the Basis for Adverse Opinion paragraph would stand modified as follows, "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion."

When the auditor gives a disclaimer of opinion, the auditor will not state anything about the sufficiency and appropriateness of audit evidence obtained.

Question 21: When the auditor's report is modified, does this impact the auditor's opinion on internal financial controls over financial reporting?

Response 21: Yes. When the auditor's report is modified (qualified, adverse or disclaimer), this may have an impact on the auditor's opinion on internal financial controls over financial reporting.

A modification is made to the auditor's report when:

- a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or

Implementation Guide on Reporting Standards

- b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Internal control system means all the policies and procedures adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

A modification in the audit report on financial statements may have a direct impact on accounting records and reliable financial information and therefore may trigger a modification in the auditor's reporting on internal financial controls over financial reporting. However, there could be situations e.g. disagreement with management in interpretation of an accounting standard, wherein modification in the audit report on financial statements may not have an impact on auditor's report on internal financial controls over financial reporting. Reference should be made to the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the ICAI in this regard.

Question 22: When the auditor's report carries a modification from earlier years, does this impact the auditor's opinion on internal financial controls over financial reporting?

Response 22: Yes. Refer response to Question 21 above. Even when the auditor's report carries a modification from earlier years, it may have a direct impact on accounting records and reliable financial information. Hence the auditor needs to exercise professional judgement to determine whether a modification in the auditor's reporting on internal financial controls over financial reporting should be made.

Implementation Guide on Reporting Standards

Question 23: When the auditor's report on internal financial controls over financial reporting is modified, does this impact the auditor's opinion on the financial statements?

Response 23: Not necessarily. A modified report on internal financial controls over financial reporting does not in effect imply that the audit report on financial statements should also be modified. In an audit of financial statements, the assurance obtained by the auditor is through both testing of internal controls and performance of substantive procedures. Therefore, if the auditor is of the opinion that as a result of substantive procedures performed, sufficient appropriate audit evidence has been obtained to address the risk identified or gain assurance on the account balance being tested, the audit opinion on the financial statements should not be modified.

Question 24: Is there a change in the placement of the opinion (including modified opinions) and basis for opinion in the revised reporting standards?

Response 24: Yes. There is a change in the structure of the auditor's report, as stated in Question 16 above.

The opinion is placed as the first paragraph in the revised auditor's report format followed by the basis for opinion.

Question 25: What is an auditor obligated to do if he expects to modify his report? (See Question 17 of Chapter 5 on SA 706(Revised))

Response 25: If the auditor expects to modify his audit report or include an Emphasis of matter /Other matter paragraph in his audit report, he has an obligation to communicate this to those charged with governance (e.g., an audit committee or board of directors or partners/ trustees in case of a firm/ trust) that he intends to do so, as well as provide them the proposed wording. Reference should be made to SA 260(Revised), "Communication with Those Charged with Governance", in this regard.

Implementation Guide on Reporting Standards

An issue that results in a modification to the audit opinion or which involves including an emphasis of matter or other matter paragraph in the auditor's report, is obviously important enough to require such communication before issue of audit report. Likewise, those charged with governance too get the opportunity to provide further information and explanations that hitherto might not have been provided to the auditor by the management, which might lead the auditor to reconsider his earlier decision.

Question 26: The amended paragraph 17 of the Guidance Note on Audit of Consolidated Financial Statements (Revised 2016) issued by the ICAI states that “While considering the observations (for instance modification and /or emphasis of matter/other matter in accordance with SA 705/706) of the component auditor in his report on the standalone financial statements, the parent auditor should comply with the requirements of SA 600, “Using the Work of Another Auditor”.” Whether principal auditor has to mandatorily reproduce all the observations of component auditors and ensure same is in compliance with the requirements of SA 705 (Revised)?

Response 26: In addition to the amended paragraph 17 referred above, practitioners are advised to refer Paragraph 16 of the Guidance Note on Audit of Consolidated Financial Statements (Revised 2016) issued by the ICAI which states that “The principal auditor, if he decides to use the work of another auditor in relation to the audit of consolidated financial statements, should comply with the requirements of SA 600.”

Further, paragraph 23 of SA 600 states that “If the other auditor issues, or intends to issue, a modified auditor's report, the principal auditor should consider whether the subject of the modification is of such nature and significance, in relation to the financial information of the entity on which the principal auditor is reporting that it requires a modification of the principal auditor's report.”

Implementation Guide on Reporting Standards

Accordingly, while reporting on the Consolidated Financial Statements, the practitioners have to give due consideration to the nature and significance of the findings of component auditors with reference to the Consolidated Financial Statements as a whole before concluding whether to reproduce the comments (Qualification/ Emphasis of Matter/ Other Matter) of component auditor in his report on the Consolidated Financial Statements. Once the practitioner concludes to include qualification reported by the component auditor in the report on consolidated financial statements also, then the same needs to be in compliance with the requirements of SA 705(Revised) and the said Guidance Note.

Chapter 5

SA 706 (Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

Introduction to the Standard

5.1 In some circumstances, having formed an opinion on the financial statements, the auditors wish to draw users' attention to a matter disclosed in the financial statements or a matter about the audit. The auditors are required to do this by using an Emphasis of Matter paragraph or Other Matter paragraph, respectively, to draw users' attention to the matter. SA 706(Revised) deals with additional communication in the auditor's report when the auditor considers it necessary to:

- (a) Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or
- (b) Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Because an Emphasis of Matter paragraph relates to a matter already appropriately presented or disclosed in the financial statements, the auditor includes the paragraph only when it is of fundamental importance to highlight the matter to users of the financial statements. Widespread use of Emphasis of Matter paragraphs would diminish the effectiveness of the auditor's communication about such matters.

Implementation Guide on Reporting Standards

5.2 SA 706(Revised) states that an Emphasis of Matter paragraph or an Other Matter Paragraph cannot be used as a substitute for a key audit matter (when auditor is required or otherwise decides to communicate key audit matters).

5.3 In some cases, a matter that has been determined to be a key audit matter in accordance with SA 701 may also be in the auditor's judgment fundamental to users' understanding of the financial statements. In such cases, in communicating the matter as a key audit matter in accordance with SA 701, the auditor may wish to highlight or draw further attention to its relative importance. The auditor may do so by presenting the matter more prominently than other matters in the Key Audit Matters section (e.g., as the first matter) or by including additional information in the description of the key audit matter to indicate the importance of the matter to users' understanding of the financial statements.

Given below are the responses on key issues of SA 706(Revised) in a Question–Answer format.

Question 1: For which audits does the auditor need to follow this revised reporting standard i.e. SA 706 (Revised)?

Response 1: SA 706(Revised) is applicable for audits of financial statements for periods beginning on or after April 1, 2018.

Question 2: Is SA 706 (Revised) applicable for audit reports signed after April 1, 2018?

Response 2: Since the revised reporting standard, SA 706(Revised) is applicable for audits of financial statements for periods beginning on or after April 1, 2018, audit reports signed after April 1, 2018 pertaining to financial statements for periods beginning before April 1, 2018 will not be governed by SA 706(Revised).

Question 3: Does insertion of an Emphasis of Matter paragraph in the auditor’s report make the opinion “modified”?

Response 3: No. SA 705(Revised) excludes Emphasis of Matter paragraphs and Other Matter paragraphs from being termed as “modifications to the audit opinion”. These form the subject-matter of SA 706(Revised).

The point to note is that an Emphasis of Matter paragraph is not a part of the audit opinion at all. It is a separate, independent paragraph designed to provide “additional communication” to the users by emphasizing on the subject matter.

Question 4: Why is an “Emphasis of Matter” paragraph given by an auditor?

Response 4: An extremely important point to note is that an Emphasis of Matter paragraph deals with matters that are already *appropriately presented or disclosed* in the financial statements. This means that the auditor does not have any reservations about such matters.

Using an Emphasis of Matter paragraph where a qualification should be given, is clearly a non-compliance with the Standards. SA 706(Revised) specifically states that “An Emphasis of Matter paragraph is not a substitute for either the auditor expressing a qualified opinion or an adverse opinion, or disclaiming an opinion, when required by the circumstances of a specific audit engagement.”

The question then is, if the matter is already appropriately presented or disclosed in the financial statements, why is it necessary for an auditor to emphasize it in his report?

An Emphasis of Matter paragraph is defined as “A paragraph included in the auditor’s report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements.”

Implementation Guide on Reporting Standards

Question 5: What kind of circumstances may require issuing an Emphasis of Matter Paragraph?

Response 5: Examples given in the Standard itself are:

- An uncertainty relating to the future outcome of an exceptional litigation or regulatory action.
- A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.²²
- Early application (where permitted) of a new Accounting Standard that has a material effect on the financial statements.
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

Another example could be the impact, if significant, of an unconventional interpretation of an Accounting Standard that an entity may have taken, even though the auditor is fully in agreement with it.

Some more examples given in other Standards on Auditing are as under:

- When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.
- To alert users that the financial statements are prepared in accordance with a special purpose framework.
- When facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report (i.e., subsequent events).²³

Question 6: Is it advisable for an auditor to give Emphasis of Matter paragraphs to highlight all significant matters and transactions that affect the financial statements?

Response 6: No. SA 706(Revised) clearly states that

²² SA 560, Subsequent Events, paragraph 6.

²³ SA 560, Subsequent Events, paragraphs 12(b) and 16.

Implementation Guide on Reporting Standards

“widespread use of Emphasis of Matter paragraphs may diminish the effectiveness of the auditor’s communication about such matters”. An auditor’s report is a carefully worded document that should contain such information as is required.

When giving an Emphasis of Matter, care should also be taken to ensure that the auditor does not introduce new fact or information that is not already presented or disclosed in the financial statements. It is because the Standard is clear that “An Emphasis of Matter paragraph is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make.”

Question 7: Will key audit matters be Emphasis of Matter Paragraphs?

Response 7: No, key audit matters are not Emphasis of Matter paragraphs. By definition, an Emphasis of Matter paragraph can be included, where SA 701 applies, only when the matter has not been determined to be a key audit matter to be communicated in the auditor’s report.

However, where SA 701 does not apply, there is no requirement to communicate key audit matters in the auditor’s report. Under such circumstance, assessment under SA 706 (Revised) is required to be made to determine if the matter requires an emphasis or not.

Question 8: Will all Emphasis of Matter paragraphs be key audit matters?

Response 8: No. However, there could be situations wherein a key audit matter may also be fundamental to the user’s understanding of the financial statements. In such cases, such matter may be presented more prominently (e.g., as first matter) in the key audit matters section.

Similarly, there could be a matter that is not determined to be a key audit matter but which is fundamental to the user’s understanding of the financial statements. Such matters would qualify as Emphasis of Matter paragraphs.

Implementation Guide on Reporting Standards

Question 9: What is an “Other Matter” paragraph, and how is it different from an Emphasis of Matter paragraph?

Response 9: An Other Matter Paragraph is defined as “A paragraph included in the auditor’s report that refers to a matter *other than those presented or disclosed in the financial statements that*, in the auditor’s judgment, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report.”

In other words, the distinction is that while an Emphasis of Matter paragraph refers to matters that are appropriately presented or disclosed in the financial statements, an Other Matter paragraph refers to matters that are not presented or disclosed in the financial statements but the auditor feels the need to bring them to the users’ attention.

The other point of difference to note is that while the definition of Emphasis of Matter paragraph uses the word “*fundamental*” with reference to understanding of the financial statements, the definition of other matter paragraph uses the word “*relevant*”. The reason is that *matters of emphasis* are mentioned in the financial statements and are therefore already available to the users. By highlighting them in his report, the auditor specifically points the readers’ attention to these matters. It is only the most “fundamentally important” matters that are therefore included in Emphasis of Matter.

On the other hand, *other matters* are those related to the users’ understanding of the audit, the auditor’s responsibility or the auditor’s report, that are not mentioned at all in the financial statements and therefore the users are likely to be unaware of them. So, if the auditor believes that such information is “relevant”, he informs the users through his report.

A key point to note is that an Other Matter paragraph is limited to information about the audit, the auditor’s

Implementation Guide on Reporting Standards

responsibility or the auditor's report, and does not include matters related to the financial statements, as is the case with the Emphasis of Matter paragraph.

Question 10: Is there a change in the definition of Emphasis of Matter paragraph and Other Matter Paragraph in SA 706(Revised)?

Response 10: No, there is no change in the definition of Emphasis of Matter paragraph or Other Matter paragraph in SA 706(Revised).

Question 11: If an auditor disagrees with or is uncomfortable about the recognition, measurement, disclosure or presentation of a transaction or event reflected in the financial statements, can he highlight it in an Emphasis of Matter paragraph?

Response 11: No. It is important to note that Emphasis of Matter is given only in respect of matters that are "appropriately presented or disclosed" in the financial statements. This means that the auditor should and is deemed to agree entirely with the treatment of that matter in the financial statements.

In case the auditor has a reservation about a matter, he refers to SA 705 (Revised) and considers if his reservation merits a modification to the auditor's opinion. If, in terms of the guidance given in SA 705 (Revised), he concludes that the matter is not worthy of a modification to his opinion, he cannot then use an Emphasis of Matter paragraph to highlight that matter merely because he cannot modify his opinion.

Question 12: What are the requirements for including an Emphasis of Matter Paragraph in the auditor's report?

Response 12: Following are the requirements for including an Emphasis of Matter paragraph in the auditor's Report:

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

Implementation Guide on Reporting Standards

- (b) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements.
- (c) Indicate that the auditor's opinion is not modified in respect of the matter emphasized.

Question 13: Is it appropriate to insert an Emphasis of Matter paragraph also in the section of the auditor's report titled "*Report on Other Legal and Regulatory Requirements*"?

Response 13: An Emphasis of Matter paragraph is given to draw the users' attention to a fundamentally important matter that is already appropriately presented or disclosed in the financial statements.

Where the auditor also has reporting obligations under a law or regulation in addition to providing an audit opinion, these obligations would be more or less in the nature of compliance reporting i.e. where the auditor makes assertions about whether something exists or does not exist or whether something has been done or not. Such reporting would, by and large, be on factual matters, even if it requires exercising the auditor's professional judgement.

In the light of this, it is difficult to visualize a situation where it may be appropriate to give an Emphasis of Matter paragraph also in the section of the auditor's report titled "Report on Other Legal and Regulatory Requirements".

Question 14: What are the placement rules for Emphasis of Matter paragraphs and Other Matter paragraphs?

Response 14: The placement of an Emphasis of Matter paragraph or Other Matter paragraph in the auditor's report depends on the nature of the information to be communicated, and the auditor's judgment as to the relative significance of such information to intended users compared

Implementation Guide on Reporting Standards

to other elements required to be reported in accordance with SA 700 (Revised). For example:

Emphasis of Matter Paragraphs

- When the Emphasis of Matter paragraph relates to the applicable financial reporting framework, including circumstances where the auditor determines that the financial reporting framework prescribed by law or regulation would otherwise be unacceptable, the auditor may consider it necessary to place the paragraph immediately following the Basis of Opinion section to provide appropriate context to the auditor's opinion.
- When a Key Audit Matters section is presented in the auditor's report, an Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matters section, based on the auditor's judgment as to the relative significance of the information included in the Emphasis of Matter paragraph. The auditor may also add further context to the heading "Emphasis of Matter", such as "Emphasis of Matter – Subsequent Event", to differentiate the Emphasis of Matter paragraph from the individual matters described in the Key Audit Matters section.

Other Matter Paragraphs

- When a Key Audit Matters section is presented in the auditor's report and an Other Matter paragraph is also considered necessary, the auditor may add further context to the heading "Other Matter", such as "Other Matter – Scope of the Audit", to differentiate the Other Matter paragraph from the individual matters described in the Key Audit Matters section.
- When an Other Matter paragraph is included to draw users' attention to a matter relating to Other Reporting Responsibilities addressed in the auditor's report, the paragraph may be included in the Report on Other Legal and Regulatory Requirements section.

Implementation Guide on Reporting Standards

- When relevant to all the auditor's responsibilities or users' understanding of the auditor's report, the Other Matter paragraph may be included as a separate section following the Report on the Audit of the Financial Statements and the Report on Other Legal and Regulatory Requirements.

Question 15: What kind of circumstances may require issuing an Other Matter paragraph?

Response 15: An Other Matter paragraph may be required to enhance users' understanding of an audit. For example, assume that a client imposes a major scope limitation after the auditor has, in good faith, accepted the engagement and performed a substantial part of the audit. Paragraphs 11 to 14 of SA 705(Revised) deal with this situation and state that in case the possible effects on the financial statements of resulting undetected misstatements is both, material and pervasive, such that giving a qualified opinion would not be adequate, the auditor should resign from the engagement. Further, assume that the appointment of the auditor is under a law and that law does not permit the auditor once appointed to resign. Under these circumstances, the auditor should explain the scope limitation and his inability to resign in an Other Matter paragraph.

An Other Matter paragraph could also be required if it is relevant to users' understanding of the auditor's responsibilities or the auditor's report. For example, the same auditor is engaged to audit financial statements of an entity both under Indian GAAPs and under IFRSs. He issues two separate auditor's reports on the two sets of financial statements, both under the general purpose framework for the same accounting period. In such case, the auditor may include an Other Matter paragraph in the auditor's report, referring to the fact that another set of financial statements has been prepared by the same entity in accordance with another general purpose framework and that the auditor has issued a report on those financial statements.

Implementation Guide on Reporting Standards

In another instance, if the financial statements are special purpose financial statements but prepared as per a general purpose framework, an Other Matter paragraph is the place where the auditor would state that the auditor's report is intended solely for the intended users, and should not be distributed to or used by other parties.

Question 16: What does an Other Matter paragraph not include?

Response 16: An Other Matter Paragraph does not include:

- Any matter that is required to be presented or disclosed in the financial statements – this is because anything to do with such matters falls within the purview of an Emphasis of Matter paragraph;
- Any information that the auditor is prohibited from providing by law, regulation or other professional Standards, for example, ethical requirements relating to confidentiality of client information;
- Information that is required to be provided by management – this is because auditors should keep away from trespassing into management's territory in order to retain their independence. The management's and auditor's responsibility paragraphs clearly demarcate what each is responsible for.

Question 17: What is an auditor obligated to do if he expects to include either an Emphasis of Matter Paragraph or an Other Matter Paragraph in his report? (See Question 25 of Chapter 4 on SA 705(Revised))

Response 17: If the auditor expects to modify his audit report or include an Emphasis of Matter/Other Matter paragraph in his audit report, he has an obligation to communicate this to those charged with governance (e.g., an audit committee or board of directors or partners/ trustees in case of a firm/ trust) that he intends to do so as well as to provide them the proposed wording. Reference should be made to SA 260(Revised) in this regard.

Implementation Guide on Reporting Standards

An issue that results in modification to auditor's opinion or which involves including an Emphasis of Matter or Other Matter paragraph in the auditor's report is obviously important enough to require such communication before issue of audit report. Likewise, those charged with governance too get the opportunity to provide further information and explanations, hitherto not provided to the auditor by the management, which might lead the auditor to reconsider his earlier decision.

Question 18: What is the change in SA 706 (Revised) read with SA 570 (Revised)?

Response 18: Earlier, where there was a material uncertainty regarding the entity's ability to continue as a going concern which was adequately disclosed in the financial statements, an Emphasis of Matter paragraph was required to be included as per SA 570. Similarly, when there was no material uncertainty, but still the auditors believed that such situations is fundamental to the user's understanding of the financial statements, although not required under SA 570, the auditors used to include the same as an Emphasis of Matter as per SA 706.

Consequent to the revision in the SAs, the position has changed.

1. Where SA 701 applies:

- Where there is a material uncertainty regarding the entity's ability to continue as a going concern, the same needs to be included under a separate section 'Material uncertainty related to going concern' if the disclosures in the financial statements are adequate. However if the disclosures are inadequate, the auditor needs to modify the audit report in accordance with the requirements specified in SA 705(Revised).
- Where there is no material uncertainty, then the same may be considered as a key audit matter.

Implementation Guide on Reporting Standards

2. Where SA 701 does not apply:

- Where there is a material uncertainty regarding the entity's ability to continue as a going concern, the same needs to be included under a separate section 'Material uncertainty related to going concern' if the disclosures in the financial statements are adequate. However if the disclosures are inadequate, the auditor needs to modify the audit report in accordance with the requirements specified in SA 705(Revised).
- Where there is no material uncertainty, and the auditor believes that it is fundamental to the users understanding of the financial statements, then the same can be considered as an Emphasis of Matter paragraph.

Appendices

- Appendix 1: Illustrations of Independent Auditor's Reports on Financial Statements (reproduced from Appendix of SA 700(Revised), Forming an Opinion and Reporting on Financial Statements)
- Appendix 2: Illustrations of Auditor's Reports with Modifications to the Opinion (reproduced from Appendix of SA 705(Revised), Modifications to the Opinion in the Independent Auditor's Report)
- Appendix 3: Illustrations of an Auditor's Report that includes an Emphasis of Matter paragraph/Other Matter paragraph (Reproduced from Appendix of SA 706(Revised), Emphasis of Matter paragraphs and Other Matter Paragraphs in the Independent Auditor's Report)
- Appendix 4: Illustrations of Auditor's Reports Relating to Going Concern (Reproduced from Appendix of SA 570(Revised), Going Concern)
- Appendix 5: Illustrations of Auditor's Reports Relating to Other Information (Reproduced from Appendix of SA 720(Revised), The Auditor's Responsibilities Relating to Other Information)

Appendix 1

Illustrations of Independent Auditor's Reports on Financial Statements

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

Illustration 1 – Auditor’s Report on Financial Statements of a Listed Company Prepared in Accordance with a Fair Presentation Framework

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed company (registered under the Companies Act, 2013) using a fair presentation framework. The audit is not a group audit (i.e., SA 600 does not apply).
- The financial statements are prepared by management of the company in accordance with the accounting standards prescribed under section 133 of the Companies Act, 2013.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in SA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by ICAI together with the other relevant ethical requirements relating to the audit and the auditor refers to both.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern in accordance with SA 570(Revised).
- Key audit matters have been communicated in accordance with SA 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.

Implementation Guide on Reporting Standards

- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at 31st March 20XX, and the statement of profit and loss, (*statement of changes in equity*)²⁴ and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information [in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at (location of branches)]²⁵.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Companies Act, 2013 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 20XX, and its profit/loss, (*changes in equity*)²⁶ and its cash flows for the year ended on that date.

²⁴ Where applicable.

²⁵ Where applicable.

²⁶ Where applicable.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in SA 720 (Revised) – see Illustration 1 in Appendix 2 of SA 720 (Revised).]

Responsibilities of Management and Those Charged with Governance for the Standalone Financial Statements

The Company’s Board of Directors is responsible for the

Implementation Guide on Reporting Standards

matters stated in section 134(5) of the Companies Act, 2013 (“the Act”) with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance, (changes in equity)²⁷ and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the accounting Standards specified under section 133 of the Act. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

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

Those Board of Directors are also responsible for overseeing the Company’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion.

²⁷ Where applicable.

Implementation Guide on Reporting Standards

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Paragraph 41(b) of this SA explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or applicable auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Companies Act, 2013, we are also responsible for expressing our opinion on whether the

Implementation Guide on Reporting Standards

company has adequate internal financial controls system in place and the operating effectiveness of such controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Implementation Guide on Reporting Standards

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter

We did not audit the financial statements/ information of (number) branches included in the standalone financial statements of the Company whose financial statements/financial information reflect total assets of Rs. as at 31st March 20XX and total revenue of Rs.for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of branches, is based solely on the report of such branch auditors.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2016 ("the Order"), issued by the Central Government of India in terms of sub-section (11) of section 143 of the Companies Act, 2013, we give in the Annexure a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.

2. As required by Section 143(3) of the Act, we report that:

(a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

Implementation Guide on Reporting Standards

- (b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books [*and proper returns adequate for the purposes of our audit have been received from the branches not visited by us.*²⁸]
- (c) [*The reports on the accounts of the branch offices of the Company audited under Section 143(8) of the Act by branch auditors have been sent to us and have been properly dealt with by us in preparing this report*²⁹.]
- (d) The Balance Sheet, the Statement of Profit and Loss, (the Statement of Changes in Equity)³⁰ and the Cash Flow Statement dealt with by this Report are in agreement with the books of account [*and with the returns received from the branches not visited by us*³¹].
- (e) In our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.
- (f) On the basis of the written representations received from the directors as on 31st March, 20XX taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 20XX from being appointed as a director in terms of Section 164(2) of the Act.
- (g) With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate Report in “Annexure A”.
- (h) With respect to the other matters to be included in the Auditor’s Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:

²⁸ Where applicable.

²⁹ Where applicable.

³⁰ Where applicable.

³¹ Where applicable.

Implementation Guide on Reporting Standards

- i. The Company has disclosed the impact of pending litigations on its financial position in its financial statements – Refer Note XX to the financial statements; *[or the Company does not have any pending litigations which would impact its financial position³²]*
- ii. The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts – Refer Note XX to the financial statements; *[or the Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.³³]*
- iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company *{or, following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company or there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company³⁴}*.

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation³⁵)
(Membership No.)

Place of Signature:

Date:

³² As may be applicable.

³³ As may be applicable.

³⁴ As may be applicable.

³⁵ Partner or Proprietor, as the case may be.

Illustration 2 – Auditor’s Report on Consolidated Financial Statements of a Listed Company Prepared in Accordance with a Fair Presentation Framework

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of a listed company (registered under the Companies Act, 2013) using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., SA 600 applies).
- The consolidated financial statements are prepared by management of the company in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013 (a general purpose framework).
- The terms of the audit engagement reflect the description of management’s responsibility for the consolidated financial statements in SA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the ICAI’s Code of Ethics and the relevant provisions of the Companies Act, 2013.
- Based on the audit evidence obtained, the principal auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern in accordance with SA 570 (Revised).
- Key audit matters have been communicated in accordance with SA 701.
- The auditor has obtained all of the other information prior to the date of auditor’s report and has not identified a material misstatement of the other information.

Implementation Guide on Reporting Standards

- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.
- In addition to the audit of the consolidated financial statements, the principal auditor has other reporting responsibilities required under the Companies Act, 2013.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of ABC Company Limited (hereinafter referred to as the 'Holding Company') and its subsidiaries (Holding Company and its subsidiaries together referred to as "the Group"), its associates and jointly controlled entities, which comprise the consolidated Balance Sheet as at March 31, 20XX, and the consolidated statement of Profit and Loss, *(the consolidated statement of changes in equity)*³⁶ and the consolidated cash flows Statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information (hereinafter referred to as "the consolidated financial statements").

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid consolidated financial statements give the information required by the Companies Act, 2013 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the consolidated state of affairs of the Group, its associates and jointly controlled entities as at March 31, 20XX, of

³⁶ Where applicable.

Implementation Guide on Reporting Standards

consolidated profit/loss, (*consolidated changes in equity*)³⁷ and its consolidated cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group, its associates and jointly controlled entities in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in India in terms of the Code of Ethics issued by ICAI and the relevant provisions of the Companies Act, 2013, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in SA 720 (Revised) – see Illustration 1 in Appendix 2 of SA 720 (Revised).]

³⁷ Where applicable.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

The Holding Company's Board of Directors is responsible for the preparation and presentation of these consolidated financial statements in term of the requirements of the Companies Act, 2013 (the Act) that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Group including its associates and jointly controlled entities in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Act. The respective Board of Directors of the companies included in the Group and of its associates and jointly controlled entities are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Group and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, which have been used for the purpose of preparation of the consolidated financial statements by the Directors of the Holding Company, as aforesaid.

In preparing the consolidated financial statements, the respective Board of Directors of the companies included in the Group and of its associates and jointly controlled entities are responsible for assessing the ability of the Group and of its associates and jointly controlled entities to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of

Implementation Guide on Reporting Standards

accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The respective Board of Directors of the companies included in the Group and of its associates and jointly controlled entities are responsible for overseeing the financial reporting process of the Group and of its associates and jointly controlled entities.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

Paragraph 41(b) of this SA explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or the applicable auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

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

Implementation Guide on Reporting Standards

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Companies Act, 2013, we are also responsible for expressing our opinion on whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group and its associates and jointly controlled entities to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and its associates and jointly controlled entities to cease to continue as a going concern.

Implementation Guide on Reporting Standards

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and its associates and jointly controlled entities to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the financial statements of such entities included in the consolidated financial statements of which we are the independent auditors. For the other entities included in the consolidated financial statements, which have been audited by other auditors, such other auditors remain responsible for the direction, supervision and performance of the audits carried out by them. We remain solely responsible for our audit opinion.

We communicate with those charged with governance of the Holding Company and such other entities included in the consolidated financial statements of which we are the independent auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's

Implementation Guide on Reporting Standards

report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matters

- (a) We did not audit the financial statements / financial information of _____ subsidiaries, and _____ jointly controlled entities, whose financial statements / financial information reflect total assets of Rs. _____ as at 31st March, 20XX, total revenues of Rs. _____ and net cash flows amounting to Rs. _____ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs. _____ for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of _____ associates, whose financial statements / financial information have not been audited by us. These financial statements / financial information have been audited by other auditors whose reports have been furnished to us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities and associates, and our report in terms of sub-section (3) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries, jointly controlled entities and associates, is based solely on the reports of the other auditors.
- (b) We did not audit the financial statements / financial information of _____ subsidiaries and _____ jointly controlled entities, whose financial statements / financial information reflect total assets of Rs. _____ as at 31st March, 20XX, total revenues of Rs. _____ and net cash flows amounting to Rs. _____ for the year ended on that date, as considered in the consolidated financial

Implementation Guide on Reporting Standards

statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs. _____ for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of _____ associates, whose financial statements / financial information have not been audited by us. These financial statements / financial information are unaudited and have been furnished to us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities and associates, and our report in terms of sub-section (3) of Section 143 of the Act in so far as it relates to the aforesaid subsidiaries, jointly controlled entities and associates, is based solely on such unaudited financial statements / financial information. In our opinion and according to the information and explanations given to us by the Management, these financial statements / financial information are not material to the Group.

Our opinion on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements / financial information certified by the Management.

Report on Other Legal and Regulatory Requirements

As required by Section 143(3) of the Act, we report, to the extent applicable, that:

- (a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit of the aforesaid consolidated financial statements.
- (b) In our opinion, proper books of account as required by law relating to preparation of the aforesaid consolidated financial statements have been kept so far as it appears from our examination of those books and the reports of the other auditors.

Implementation Guide on Reporting Standards

- (c) The Consolidated Balance Sheet, the Consolidated Statement of Profit and Loss, (the consolidated Statement of Changes in Equity)³⁸ and the Consolidated Cash Flow Statement dealt with by this Report are in agreement with the relevant books of account maintained for the purpose of preparation of the consolidated financial statements.
- (d) In our opinion, the aforesaid consolidated financial statements comply with the Accounting Standards specified under Section 133 of the Act read with Rule 7 of the Companies (Accounts) Rules, 2014.
- (e) On the basis of the written representations received from the directors of the Holding Company as on 31st March, 20XX taken on record by the Board of Directors of the Holding Company and the reports of the statutory auditors of its subsidiary companies, associate companies and jointly controlled companies incorporated in India, none of the directors of the Group companies, its associate companies and jointly controlled companies incorporated in India is disqualified as on 31st March, 20XX from being appointed as a director in terms of Section 164(2) of the Act.
- (f) With respect to the adequacy of internal financial controls over financial reporting of the Group and the operating effectiveness of such controls, refer to our separate report in Annexure.
- (g) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditor's) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
 - i. The consolidated financial statements disclose the impact of pending litigations on the consolidated financial position of the Group, its associates and jointly controlled entities – Refer Note XX to the consolidated financial statements.

³⁸ Where applicable.

Implementation Guide on Reporting Standards

Or

There were no pending litigations which would impact the consolidated financial position of the Group, its associates and jointly controlled entities.³⁹

- ii. Provision has been made in the consolidated financial statements, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts – Refer (a) Note XX to the consolidated financial statements in respect of such items as it relates to the Group, its associates and jointly controlled entities and (b) the Group's share of net profit/loss in respect of its associates.

Or

The Group, its associates and jointly controlled entities did not have any material foreseeable losses on long-term contracts including derivative contracts.⁴⁰

- iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies, associate companies and jointly controlled companies incorporated in India.

Or

Following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Holding Company, and its subsidiary companies, associate companies and jointly controlled companies incorporated in India⁴¹.

Or

There were no amounts which were required to be transferred to the Investor Education and Protection

³⁹ As may be applicable.

⁴⁰ As may be applicable.

⁴¹ As may be applicable.

Implementation Guide on Reporting Standards

Fund by the Holding Company, and its subsidiary companies, associate companies and jointly controlled companies incorporated in India⁴².

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation⁴³)
(Membership No.)

Place of Signature:

Date:

⁴² As may be applicable.

⁴³ Partner or Proprietor.

Illustration 3 – Auditor’s Report on Financial Statements of an Unlisted Company Prepared in Accordance with a Fair Presentation Framework

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an unlisted company (registered under the Companies Act, 2013) using a fair presentation framework. The audit is not a group audit (i.e., SA 600 does not apply).
- The financial statements are prepared by management of the company in accordance with the accounting standards prescribed under section 133 of the Companies Act, 2013.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in SA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by ICAI together with the other relevant ethical requirements relating to the audit and the auditor refers to both.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern in accordance with SA 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SA 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.

Implementation Guide on Reporting Standards

- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at 31st March 20XX, and the statement of Profit and Loss, (*statement of changes in equity*)⁴⁴ and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information [in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at (location of branches)]⁴⁵.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Companies Act, 2013 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 20XX, and its profit/loss, (*changes in equity*)⁴⁶ and its cash flows for the year ended on that date.

⁴⁴ Where applicable.

⁴⁵ Where applicable.

⁴⁶ Where applicable.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the *Code of Ethics* issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in SA 720 (Revised) – see Illustration 1 in Appendix 2 of SA 720 (Revised).]

Responsibilities of Management and Those Charged with Governance for the Standalone Financial Statements

The Company's Board of Directors is responsible for the matters stated in section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance, (changes in equity)⁴⁷ and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the accounting Standards specified under section 133 of the Act. This responsibility also includes maintenance

⁴⁷ Where applicable.

Implementation Guide on Reporting Standards

of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Implementation Guide on Reporting Standards

Paragraph 41(b) of this SA explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or the applicable auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Companies Act, 2013, we are also responsible for expressing our opinion on whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a

Implementation Guide on Reporting Standards

going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

Other Matter

We did not audit the financial statements/ information of (number) branches included in the standalone financial statements of the company whose financial statements/financial information reflect total assets of Rs.as at 31st March 20XX and total revenue of Rs.for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of branches, is based solely on the report of such branch auditors.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2016 ("the Order"), issued by the Central Government of India in terms of sub-section (11) of section 143 of the Companies Act, 2013, we give in the Annexure a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.

2. As required by Section 143(3) of the Act, we report that:

- a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
- (b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books [*and proper returns adequate for the purposes of our audit have been received from the branches not visited by us.*⁴⁸]
- (c) [*The reports on the accounts of the branch offices of the Company audited under Section 143(8) of the Act by branch auditors have been sent to us and have been properly dealt with by us in preparing this report*⁴⁹.]
- (d) The Balance Sheet, the Statement of Profit and Loss, (the Statement of Changes in Equity)⁵⁰ and the Cash Flow Statement dealt with by this Report are in agreement with the books of account [*and with the returns received from the branches not visited by us*⁵¹].
- (e) In our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.
- (f) On the basis of the written representations received from

⁴⁸ Where applicable.

⁴⁹ Where applicable.

⁵⁰ Where applicable.

⁵¹ Where applicable.

Implementation Guide on Reporting Standards

the directors as on 31st March, 20XX taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 20XX from being appointed as a director in terms of Section 164(2) of the Act.

- (g) With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate Report in “Annexure A”.
- (h) With respect to the other matters to be included in the Auditor’s Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
 - i. The Company has disclosed the impact of pending litigations on its financial position in its financial statements – Refer Note XX to the financial statements; *[or the Company does not have any pending litigations which would impact its financial position⁵²]*
 - ii. The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts – Refer Note XX to the financial statements; *[or the Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.⁵³]*
 - iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company *{or, following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company or there were*

⁵² As may be applicable.

⁵³ As may be applicable.

Implementation Guide on Reporting Standards

no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company⁵⁴ }.

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation⁵⁵)
(Membership No.)

Place of Signature:
Date:

⁵⁴ As may be applicable.

⁵⁵ Partner or Proprietor, as the case may be.

Illustration 4 – Auditor’s Report on Financial Statements of a Non-Corporate Entity Prepared in Accordance with a Fair Presentation Framework

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a non-corporate entity using a fair presentation framework. The audit is not a group audit (i.e., SA 600 does not apply).
- The financial statements are prepared by management of the entity in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in SA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Code of Ethics issued by ICAI⁵⁶.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with SA 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SA 701.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.

⁵⁶ Specify any applicable ethical requirements under the relevant laws or regulations applicable to the entity.

Implementation Guide on Reporting Standards

- The auditor has no other reporting responsibilities required under local law.
- The auditor elects to refer to the description of the auditor's responsibility included on a website of an appropriate authority.

INDEPENDENT AUDITOR'S REPORT

To the Partners of ABC & Associates [or Other Appropriate Addressee]

Opinion

We have audited the financial statements of ABC & Associates (the entity), which comprise the balance sheet as at March 31st 20XX, and the profit and loss account, (*and statement of cash flows*)⁵⁷ for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the entity as at March 31, 20XX, and of its financial performance (*and its cash flows*)⁵⁸ for the year then ended in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI).

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) issued by ICAI. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the entity in accordance with the Code of Ethics issued by ICAI and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

⁵⁷ Where applicable.

⁵⁸ Where applicable.

Responsibilities of Management and Those Charged with Governance for the Financial Statements⁵⁹

Management 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 entity in accordance with the 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 financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

⁵⁹ Or other terms that are appropriate in the context of the legal framework of the particular entity.

Implementation Guide on Reporting Standards

A further description of the auditor's responsibilities for the audit of the financial statements is located at [*Organization's*] website at: [*website link*]. This description forms part of our auditor's report.

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation⁶⁰)
(Membership No.)

Place of Signature:

Date:

⁶⁰ Partner or Proprietor, as the case may be

Illustration 5 – Auditor’s Report on Financial Statements of a Non-Corporate Entity Prepared in Accordance with a General Purpose Compliance Framework

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a non-corporate entity, required by law or regulation. The audit is not a group audit (i.e., SA 600 does not apply).
- The financial statements are prepared by management of the entity in accordance with the Financial Reporting Framework (XYZ Laws) of Jurisdiction X (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in SA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Code of Ethics issued by ICAI⁶¹.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with SA 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SA 701.

⁶¹ Specify any applicable ethical requirements under the relevant laws or regulations applicable to the entity.

Implementation Guide on Reporting Standards

- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Opinion

We have audited the financial statements of ABC & Associates (the entity), which comprise the balance sheet as at March 31, 20X1, and the Profit and Loss Account (*and the cash flow statement*)⁶² for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) issued by ICAI. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the entity in accordance with the Code of Ethics issued by ICAI and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements⁶³

Management is responsible for the preparation of the

⁶² Where applicable.

⁶³ Or other terms that are appropriate in the context of the legal framework of the particular entity.

Implementation Guide on Reporting Standards

financial statements in accordance with XYZ Law and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

Paragraph 41(b) of this SA explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or applicable auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and

Implementation Guide on Reporting Standards

is not inconsistent with, the description of the auditor's responsibilities below.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.⁶⁴
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our

⁶⁴ This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

Implementation Guide on Reporting Standards

conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

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

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

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation⁶⁵)
(Membership No.)

Place of Signature:

Date:

⁶⁵ Partner or Proprietor, as the case may be.

Appendix 2

Illustrations of Auditor's Reports with Modifications to the Opinion

- Illustration 1: An auditor's report containing a qualified opinion due to a material misstatement of the financial statements.
- Illustration 2: An auditor's report containing an adverse opinion due to a material misstatement of the consolidated financial statements.
- Illustration 3: An auditor's report containing a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence regarding a foreign associate.
- Illustration 4: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements.
- Illustration 5: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements.

Illustration 1 – Qualified Opinion due to a Material Misstatement of the Financial Statements

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed company (registered under the Companies Act, 2013) using a fair presentation framework. The audit is not a group audit (i.e., SA 600 does not apply).
- The financial statements are prepared by management of the company in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013 (a general purpose framework).
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in SA 210.⁶⁶
- Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements (i.e., a qualified opinion is appropriate).
- The relevant ethical requirements that apply to the audit are the ICAI’s Code of Ethics and the provisions of the Companies Act, 2013.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern in accordance with SA 570 (Revised).
- Key audit matters have been communicated in accordance with SA 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and the matter giving rise to the qualified opinion on the financial statements also affects the other information.

⁶⁶ SA 210, Agreeing the Terms of Audit Engagements.

Implementation Guide on Reporting Standards

- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Standalone Financial Statements

Qualified Opinion

We have audited the standalone 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, (*statement of changes in equity*)⁶⁷ and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information (in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at (*location of branches*))⁶⁸.

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the aforesaid financial statements give the information required by the Companies Act 2013 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31st, 20XX and its profit/loss, (*changes in equity*)⁶⁹ and its cash flows for the year ended on that date.

⁶⁷ Where applicable.

⁶⁸ Where applicable.

⁶⁹ Where applicable.

Basis for Qualified Opinion

The Company's inventories are carried in the Balance Sheet at Rs. XXX. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from the Accounting Standards prescribed under section 133 of the Companies Act, 2013. The Company's records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of Rs. xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by Rs. xxx, and income tax, net income and shareholders' funds would have been reduced by Rs. xxx, Rs. xxx and Rs. xxx, respectively.

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ICAI's Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in SA 720 (Revised) – see Illustration 6 in Appendix 2 of SA 720 (Revised).

The last paragraph of the other information section in

Implementation Guide on Reporting Standards

Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]

Auditor’s Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]

Other Matter⁷⁰

We did not audit the financial statements/information of _____(number) branches included in the standalone financial statements of the Company whose financial statements / financial information reflect total assets of Rs. _____ as at 31st March, 20XX and total revenues of Rs. _____ for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of these branches have been audited

⁷⁰ Where applicable.

Implementation Guide on Reporting Standards

by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of these branches, is based solely on the report of such branch auditors.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]

While reporting under Section 143(3) of the Companies Act, 2013, the auditor is required to suitably reword the wordings given in the Illustration in SA 700(Revised) to meet the circumstances of the audit.

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation⁷¹)
(Membership No.)

Place of Signature:

Date:

⁷¹ Partner or Proprietor, as the case may be.

Illustration 2 – Adverse Opinion due to a Material Misstatement of the Consolidated Financial Statements

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of a listed company (registered under the Companies Act, 2013) using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., SA 600 applies).
- The consolidated financial statements are prepared by management of the entity in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013 (a general purpose framework).
- The terms of the audit engagement reflect the description of management’s responsibility for the consolidated financial statements in SA 210.
- The consolidated financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so (i.e., an adverse opinion is appropriate).
- The relevant ethical requirements that apply to the audit are the ICAI’s Code of Ethics and the provisions of the Companies Act, 2013.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with SA 570 (Revised).
- SA 701 applies; however, the auditor has determined that there are no key audit matters other than the matter described in the Basis for Adverse Opinion section.

Implementation Guide on Reporting Standards

- The auditor has obtained all of the other information prior to the date of the auditor’s report and the matter giving rise to the adverse opinion on the consolidated financial statements also affects the other information.
- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.

INDEPENDENT AUDITOR’S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Consolidated Financial Statements

Adverse Opinion

We have audited the accompanying consolidated financial statements of ABC Company Limited (hereinafter referred to as the “Holding Company”) and its subsidiaries (the Holding Company and its subsidiaries together referred to as “the Group”), its associates and jointly controlled entities, which comprise the consolidated balance sheet as at March 31, 20XX, the consolidated statement of profit and Loss, (*consolidated statement of changes in equity*)⁷² and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the “consolidated financial statements”).

In our opinion and to the best of our information and according to the explanations given to us, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying consolidated financial statements do not give a true and fair

⁷² Where applicable.

Implementation Guide on Reporting Standards

view in conformity with the accounting principles generally accepted in India, of the consolidated state of affairs of the Group, its associates and jointly controlled entities, as at March 31, 20XX, of its consolidated profit/loss, (*consolidated position of changes in equity*)⁷³ and the consolidated cash flows for the year then ended.

Basis for Adverse Opinion

As explained in Note X, the Group has not consolidated subsidiary XYZ Company that the Group acquired during 20XX because it has not yet been able to determine the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under the accounting principles generally accepted in India, the Group should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had XYZ Company been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group, its associates and jointly controlled entities, in accordance with the Code of Ethics and provisions of the Companies Act, 2013 that are relevant to our audit of the consolidated financial statements in India under the Companies Act, 2013, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics and the requirements under the Companies act, 2013. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

⁷³ Where applicable.

Implementation Guide on Reporting Standards

Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in SA 720 (Revised) – see Illustration 7 in Appendix 2 of SA 720 (Revised).]

The last paragraph of the other information section in Illustration 7 would be customized to describe the specific matter giving rise to the adverse opinion that also affects the other information.]

Key Audit Matters

Except for the matter described in the *Basis for Adverse Opinion* section, we have determined that there are no other key audit matters to communicate in our report.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements⁷⁴

[Reporting in accordance with SA 700 (Revised) – see Illustration 2 in SA 700 (Revised).]

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

[Reporting in accordance with SA 700 (Revised) – see Illustration 2 in SA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with SA 700 (Revised) – see Illustration 2 in SA 700 (Revised).]

While reporting under Section 143(3) of the Companies Act, 2013, the auditor is required to suitably reword the wordings given in the Illustration in SA 700(Revised) to meet the circumstances of the audit.

⁷⁴ Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction.

Implementation Guide on Reporting Standards

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation⁷⁵)
(Membership No.)

Place of Signature:

Date:

⁷⁵ Partner or Proprietor, as the case may be

Illustration 3 – Qualified Opinion due to the Auditor’s Inability to Obtain Sufficient Appropriate Audit Evidence Regarding a Foreign Associate

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of a listed Company (registered under the Companies Act, 2013) using a fair presentation framework. The audit is a group audit of an entity with subsidiaries, associates and jointly controlled entities (i.e., SA 600 applies).
- The consolidated financial statements are prepared by management of the entity in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013.
- The terms of the audit engagement reflect the description of management’s responsibility for the consolidated financial statements in SA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the consolidated financial statements (i.e., a qualified opinion is appropriate).
- The relevant ethical requirements that apply to the audit are the ICAI’s Code of Ethics and the relevant provisions of the Companies Act, 2013.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with SA 570 (Revised).
- Key audit matters have been communicated in accordance with SA 701.

Implementation Guide on Reporting Standards

- The auditor has obtained all of the other information prior to the date of the auditor’s report and the matter giving rise to the qualified opinion on the consolidated financial statements also affects the other information.
- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.

INDEPENDENT AUDITOR’S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the accompanying consolidated financial statements of ABC Company Limited (hereinafter referred to as the “Holding Company”) and its subsidiaries (the Holding Company and its subsidiaries together referred to as “the Group”), its associates and jointly controlled entities, which comprise the consolidated balance sheet as at March 31, 20XX, and the consolidated statement of Profit and Loss, (*consolidated statement of changes in equity*)⁷⁶ and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as “the consolidated financial statements”).

In our opinion and to the best of our information and according to the explanations given to us, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the aforesaid consolidated financial statements give the information required by the Companies Act 2013 in the manner so

⁷⁶ Where applicable.

Implementation Guide on Reporting Standards

required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the consolidated state of affairs of the Group, its associates and jointly controlled entities, as at March 31, 20XX, consolidated profit/loss, (*consolidated changes in equity*)⁷⁷, and consolidated cash flows for the year then ended.

Basis for Qualified Opinion

The Group's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at Rs. XXX on the consolidated balance sheet as at March 31, 20XX, and ABC's share of XYZ's net income of Rs. XXX is included in ABC's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at March 31, 20XX and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group, its associates and jointly controlled entities in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in India in terms of the Code of Ethics issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 2013, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

⁷⁷ Where applicable.

Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in SA 720 (Revised) – see Illustration 6 in Appendix 2 of SA 720 (Revised).]

The last paragraph of the other information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements⁷⁸

[Reporting in accordance with SA 700 (Revised) – see Illustration 2 in SA 700 (Revised).]

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

[Reporting in accordance with SA 700 (Revised) – see Illustration 2 in SA 700 (Revised).]

⁷⁸ Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction.

Implementation Guide on Reporting Standards

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with SA 700 (Revised) – see Illustration 2 in SA 700 (Revised).]

While reporting under Section 143(3) of the Companies Act, 2013, the auditor is required to suitably reword the wordings given in the Illustration in SA 700(Revised) to meet the circumstances of the audit.

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member signing the Audit Report)
(Designation⁷⁹)
(Membership No.)

Place of Signature:

Date:

⁷⁹ Partner or Proprietor, as the case may be.

Illustration 4 – Disclaimer of Opinion due to the Auditor’s Inability to Obtain Sufficient Appropriate Audit Evidence about a Single Element of the Consolidated Financial Statements

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of an unlisted Company (registered under the Companies Act, 2013) using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., SA 600 applies).
- The consolidated financial statements are prepared by management of the entity in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013(a general purpose framework).
- The terms of the audit engagement reflect the description of management’s responsibility for the consolidated financial statements in SA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements. That is, the auditor was unable to obtain audit evidence about the financial information of a joint venture investment that represents over 90% of the entity’s net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the consolidated financial statements (i.e., a disclaimer of opinion is appropriate).
- The relevant ethical requirements that apply to the audit are the ICAI’s Code of Ethics and the provisions of the Companies Act, 2013.
- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.

Implementation Guide on Reporting Standards

- A more limited description of the auditor's responsibilities section is required.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Consolidated Financial Statements

Disclaimer of Opinion

We were engaged to audit the accompanying consolidated financial statements of ABC Company Limited (hereinafter referred to as the "Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group), which comprise the consolidated balance sheet as at March 31, 20XX, the consolidated statement of Profit and Loss, (*consolidated statement of changes in equity*⁸⁰) and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "Consolidated Financial Statements").

We do not express an opinion on the accompanying consolidated financial statements of the Group. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Basis for Disclaimer of Opinion

The Group's investment in its joint venture XYZ Company is carried at Rs. xxx on the Group's consolidated balance

⁸⁰ Where applicable.

Implementation Guide on Reporting Standards

sheet, which represents over 90% of the Group's net assets as at March 31, 20XX. We were not allowed access to the management and the auditors of XYZ Company. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of XYZ Company's assets that it controls jointly, its proportional share of XYZ Company's liabilities for which it is jointly responsible, its proportional share of XYZ's income and expenses for the year, *(and the elements making up the consolidated statement of changes in equity⁸¹)* and the consolidated cash flow statement.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements⁸²

[Reporting in accordance with SA 700 (Revised) – see Illustration 2 in SA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Standards on Auditing and to issue an auditor's report. However, because of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the Code of Ethics and provisions of the Companies Act, 2013 that are relevant to our audit of the consolidated financial statements in India under the Companies Act, 2013, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics and the requirements under the Companies act, 2013.

⁸¹ Where applicable.

⁸² Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

Implementation Guide on Reporting Standards

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with SA 700 (Revised) – see Illustration 2 in SA 700 (Revised).]

While reporting under Section 143(3) of the Companies Act, 2013, the auditor is required to suitably reword the wordings given in the Illustration in SA 700(Revised) to meet the circumstances of the audit.

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member signing the Audit Report)
(Designation⁸³)
(Membership No.)

Place of Signature:

Date:

⁸³ Partner or Proprietor, as the case may be

Illustration 5 – Disclaimer of Opinion due to the Auditor’s Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Statements

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a non-corporate entity using a fair presentation framework. The audit is not a group audit (i.e., SA 600, does not apply).
- The financial statements are prepared by management of the entity in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India (a general purpose framework).
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in SA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements, that is, the auditor was unable to obtain audit evidence about the entity’s inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements (i.e., a disclaimer of opinion is appropriate).
- The relevant ethical requirements that apply to the audit are ICAI’s Code of Ethics and applicable law and regulation.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- A more limited description of the auditor’s responsibilities section is required.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

To the Partners of ABC & Associates

Disclaimer of Opinion

We were engaged to audit the financial statements of ABC & Associates (“the entity”), which comprise the balance sheet as at March 31, 20X1, the statement of Profit and Loss, and (statement of cash flows)⁸⁴ for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the entity. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

We were not appointed as auditors of the entity until after March 31, 20X1 and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at March 31, 20X0 and 20X1, which are stated in the Balance Sheets at Rs XXX and Rs XXX, respectively. In addition, the introduction of a new computerized accounts receivable system in November 20X0 resulted in numerous errors in accounts receivable. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the Balance Sheet at a total amount of Rs xxx as at March 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories

⁸⁴ Where Applicable.

Implementation Guide on Reporting Standards

and accounts receivable, and the elements making up the statement of Profit and Loss (*and statement of cash flows*)⁸⁵.

Responsibilities of Management and Those Charged with Governance for the Financial Statements⁸⁶

[Reporting in accordance with SA 700 (Revised) – see Illustration 4 in SA 700 (Revised).]

Auditor’s Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the entity’s financial statements in accordance with Standards on Auditing issued by ICAI and to issue an auditor’s report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the entity in accordance with the ethical requirements in accordance with the requirements of the Code of Ethics issued by ICAI and the ethical requirements as prescribed under the laws and regulations applicable to the entity.

For XYZ & Co
Chartered Accountants
(Firm’s Registration No.)

Signature
(Name of the Member signing the Audit Report)
(Designation⁸⁷)
(Membership No.)

Place of Signature:

Date:

⁸⁵ Where applicable.

⁸⁶ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

⁸⁷ Partner or Proprietor, as the case may be.

Illustrations of an Auditor's Report that includes an Emphasis of Matter Paragraph/Other Matter Paragraph

- Illustration 1: An Auditor's Report that Includes a Key Audit Matters Section, an Emphasis of Matter paragraph, and an Other Matter Paragraph
- Illustration 2: An Auditor's Report Containing a Qualified Opinion Due to a Departure from the Applicable Financial Reporting Framework and that Includes an Emphasis of Matter paragraph

Illustration 1: An Auditor's Report that Includes a Key Audit Matters Section, an Emphasis of Matter Paragraph, and an Other Matter Paragraph

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed company (registered under the companies Act, 2013) using a fair presentation framework. The audit is not a group audit (i.e., SA 600 does not apply).
- The financial statements are prepared by management of the company in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013 (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the ICAI's Code of Ethics and the provisions of the Companies Act, 2013.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with SA 570(Revised).
- Between the date of the financial statements and the date of the auditor's report, there was a fire in the company's production facilities, which was disclosed by the company as a subsequent event. In the auditor's judgment, the matter is of such importance that it is fundamental to users' understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.

Implementation Guide on Reporting Standards

- Key audit matters have been communicated in accordance with SA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Corresponding figures are presented, and the prior period's financial statements were audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and has decided to do so.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at March 31st, 20X1, and the statement of Profit & Loss, (statement of changes in equity)⁸⁸ and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information (in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at *(location of branches)*)⁸⁹.

⁸⁸ Where applicable.

⁸⁹ Where applicable.

Implementation Guide on Reporting Standards

In our opinion, and to the best of our information and according to the explanations given to us the aforesaid financial statements, give the information required by the Companies Act, 2013 in the manner so required, and give a true and fair view, in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31st, 20X1 and its profit/loss, (*changes in equity*⁹⁰) and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under Section 143(10) of the Companies Act, 2013. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements as per the ICAI's Code of Ethics and the provisions of the Companies Act, 2013, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter⁹¹

We draw attention to Note X of the financial statements, which describes the effects of a fire in the Company's production facilities. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the

⁹⁰ Where applicable.

⁹¹ As noted in paragraph A16, an Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matters section based on the auditor's judgment as to the relative significance of the information included in the Emphasis of Matter paragraph.

Implementation Guide on Reporting Standards

financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Other Matter

The financial statements of ABC Company Limited for the year ended March 31, 20X0, were audited by another auditor who expressed an unmodified opinion on those statements on June 15, 20X0.

Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in SA 720 (Revised) – see Illustration 1 in Appendix 2 of SA 720 (Revised).]

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]

Auditor’s Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]

While reporting under Section 143(3) of the Companies Act, 2013, the auditor is required to suitably reword the wordings given in the Illustration in SA 700(Revised) to meet the circumstances of the audit.

Implementation Guide on Reporting Standards

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member signing the Audit Report)
(Designation⁹²)
(Membership No.)

Place of Signature:

Date:

⁹² Partner or Proprietor, as the case may be.

Illustration 2: An Auditor's Report Containing a Qualified Opinion Due to a Departure from the Applicable Financial Reporting Framework and that Includes an Emphasis of Matter Paragraph

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an unlisted company (registered under the Companies Act, 2013) using a fair presentation framework. The audit is not a group audit. (i.e. SA 600 does not apply)
- The financial statements are prepared by management of the company in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013. (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SA 210.
- A departure from the applicable financial reporting framework resulted in a qualified opinion.
- The relevant ethical requirements that apply to the audit are the ICAI's Code of Ethics and the provisions of the Companies Act, 2013.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with SA 570(Revised).
- Between the date of the financial statements and the date of the auditor's report, there was a fire in the company's production facilities, which was disclosed by the company as a subsequent event. In the auditor's judgment, the matter is of such importance that it is fundamental to users' understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.

Implementation Guide on Reporting Standards

- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SA 701.
- The auditor has not obtained any other information prior to the date of the auditor's report.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Standalone Financial Statements

Qualified Opinion

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at March 31, 20X1, and the statement of Profit and Loss, (statement of changes in equity)⁹³ and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information (in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at *(location of branches)*)².

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the aforesaid financial statements give the information required by the Companies Act 2013 in the manner so required and give a true and fair view in conformity with the accounting principles generally

⁹³ Where applicable.

Implementation Guide on Reporting Standards

accepted in India of the state of affairs of the Company as at March 31st, 20X1 and its profit/loss, (*changes in equity*⁹⁴) and its cash flows for the year ended on that date.

Basis for Qualified Opinion

The Company's short-term marketable securities are carried in the balance sheet at Rs. xxx. Management has not marked these securities to market but has instead stated them at cost, which constitutes a departure from the Accounting Standards prescribed under Section 133 of the Companies Act, 2013. The Company's records indicate that had management marked the marketable securities to market, the Company would have recognized an unrealized loss of Rs. xxx in the statement of profit and loss for the year. The carrying amount of the securities in the balance sheet would have been reduced by the same amount at March 31, 20X1, and income tax, net income and shareholders' equity would have been reduced by Rs. xxx, Rs. xxx and Rs. xxx, respectively.

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under Section 143(10) of the Companies Act 2013. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements as per the Code of Ethics issued by ICAI and under the provisions of the Companies Act, 2013, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ICAI's Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter – Effects of a Fire

We draw attention to Note X of the financial statements, which describes the effects of a fire in the Company's

⁹⁴ Where applicable.

Implementation Guide on Reporting Standards

production facilities. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with SA 700(Revised)–see Illustration 3 in SA 700(Revised).]

Auditor’s Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with SA 700(Revised – see Illustration 3 in SA 700(Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with SA 700 (Revised) – see Illustration 3 in SA 700 (Revised).]

While reporting under Section 143(3) of the Companies Act, 2013, the auditor is required to suitably reword the wordings given in the Illustration in SA 700(Revised) to meet the circumstances of the audit.

For XYZ & Co
Chartered Accountants
(Firm’s Registration No.)

Signature
(Name of the Member signing the Audit Report)
(Designation⁹⁵)
(Membership No.)

Place of Signature:

Date:

⁹⁵ Partner or Proprietor, as the case may be.

Illustrations of Auditor's Reports Relating to Going Concern

- Illustration 1: An auditor's report containing an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial statements is adequate.
- Illustration 2: An auditor's report containing a qualified opinion when the auditor has concluded that a material uncertainty exists and that the financial statements are materially misstated due to inadequate disclosure.
- Illustration 3: An auditor's report containing an adverse opinion when the auditor has concluded that a material uncertainty exists and the financial statements omit the required disclosures relating to a material uncertainty.

Illustration 1 – Unmodified Opinion When a Material Uncertainty Exists and Disclosure in the Financial Statements is Adequate

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed company (registered under the Companies Act, 2013) using a fair presentation framework. The audit is not a group audit (i.e., SA 600 does not apply).
- The financial statements are prepared by management of the company in accordance with the accounting Standards prescribed under section 133 of the Companies Act, 2013.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in SA 210.⁹⁶
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by ICAI together with the other relevant ethical requirements relating to the audit and the auditor refers to both.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern. The disclosure of the material uncertainty in the financial statements is adequate.
- Key audit matters have been communicated in accordance with SA 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.

⁹⁶ SA 210, Agreeing the Terms of Audit Engagements.

Implementation Guide on Reporting Standards

- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at 31st March 20XX, and the statement of Profit and Loss, (*statement of changes in equity*)⁹⁷ and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information [in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at (location of branches)]⁹⁸.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Companies Act, 2013 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 20XX, and its profit/loss, (*changes in equity*)⁹⁹ and its cash flows for the year ended on that date.

⁹⁷ Where applicable.

⁹⁸ Where applicable.

⁹⁹ Where applicable.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the *Code of Ethics* issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note XX in the financial statements, which indicates that the Company incurred a net loss of Rs. ZZZ during the year ended March 31, 20XX and, as of that date, the Company's current liabilities exceeded its total assets by Rs. YYY. As stated in Note 6, these events or conditions, along with other matters as set forth in Note XX, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have

Implementation Guide on Reporting Standards

determined the matters described below to be the key audit matters to be communicated in our report.

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

Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in SA 720(Revised) – see Illustration 1 in Appendix 2 of SA 720(Revised).]

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with SA 700(Revised)–see Illustration 1 in SA 700 (Revised).¹⁰⁰]

Auditor’s Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with SA 700(Revised) – see Illustration 1 in SA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with SA 700(Revised) – see Illustration 1 in SA 700 (Revised).]

While reporting under Section 143(3) of the Companies Act, 2013, the auditor is required to suitably reword the wordings given in the Illustration in SA 700(Revised) to meet the circumstances of the audit.

For XYZ & Co
Chartered Accountants
(Firm’s Registration No.)

¹⁰⁰ Paragraphs 34 and 39 of SA 700 (Revised) require wording to be included in the auditor’s report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Implementation Guide on Reporting Standards

Signature
(Name of the Member signing the Audit Report)
(Designation¹⁰¹)
(Membership No.)

Place of Signature:

Date:

¹⁰¹ Partner or Proprietor, as the case may be.

Illustration 2 – Qualified Opinion When a Material Uncertainty Exists and the Financial Statements Are Materially Misstated Due to Inadequate Disclosure

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed company using a fair presentation framework. The audit is not a group audit (i.e., SA 600 does not apply).
- The financial statements are prepared by management of the company in accordance with the accounting Standards prescribed under section 133 of the Companies Act, 2013.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in SA 210.
- The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by ICAI together with the other relevant ethical requirements relating to the audit and the auditor refers to both.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern. Note YY to the financial statements discusses the magnitude of financing arrangements, the expiration and the total financing arrangements; however the financial statements do not include discussion on the impact or the availability of refinancing or characterize this situation as a material uncertainty.
- The financial statements are materially misstated due to the inadequate disclosure of the material uncertainty. A qualified opinion is being expressed because the auditor concluded that the effects on the financial statements of this inadequate disclosure are material but not pervasive to the financial statements.

Implementation Guide on Reporting Standards

- Key audit matters have been communicated in accordance with SA 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and the matter giving rise to the qualified opinion on the financial statements also affects the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.

INDEPENDENT AUDITOR’S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Standalone Financial Statements

Qualified Opinion

We have audited the standalone financial statements of ABC Company Limited (“the Company”), which comprise the balance sheet as at 31st March 20XX, and the statement of Profit and Loss, (*statement of changes in equity*)¹⁰² and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information [in which are included the Returns for the year ended on that date audited by the branch auditors of the Company’s branches located at (location of branches)]¹⁰³.

In our opinion and to the best of our information and according to the explanations given to us, except for the incomplete disclosure of the information referred to in the Basis for Qualified Opinion section of our report, the aforesaid standalone financial statements give the

¹⁰² Where applicable.

¹⁰³ Where applicable.

Implementation Guide on Reporting Standards

information required by the Companies Act, 2013 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 20XX, and its profit/loss, (*changes in equity*)¹⁰⁴ and its cash flows for the year ended on that date.

Basis for Qualified Opinion

As discussed in Note YY, the Company's financing arrangements expire and amounts outstanding are payable on April 30, 20XX. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this matter.

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the *Code of Ethics* issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in

¹⁰⁴ Where applicable.

Implementation Guide on Reporting Standards

SA 720 (Revised) – see Illustration 6 in Appendix 2 of SA 720 (Revised).

The last paragraph of the other information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).¹⁰⁵]

Auditor’s Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]

While reporting under Section 143(3) of the Companies Act,

¹⁰⁵ Paragraphs 34 and 39 of SA 700 (Revised) require wording to be included in the auditor’s report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Implementation Guide on Reporting Standards

2013, the auditor is required to suitably reword the wordings given in the Illustration in SA 700(Revised) to meet the circumstances of the audit.

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member signing the Audit Report)
(Designation¹⁰⁶)
(Membership No.)

Place of Signature:

Date:

¹⁰⁶ Partner or Proprietor, as the case may be.

Illustration 3 – Adverse Opinion When a Material Uncertainty Exists and is Not Disclosed in the Financial Statements

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a non-corporate entity using a fair presentation framework. The audit is not a group audit (i.e., SA 600 does not apply).
- The financial statements are prepared by management of the entity in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in SA 210.
- The relevant ethical requirements that apply to the audit are the Code of Ethics issued by ICAI¹⁰⁷.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern, and the entity is considering bankruptcy. The financial statements omit the required disclosures relating to the material uncertainty. An adverse opinion is being expressed because the effects on the financial statements of such omission are material and pervasive.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SA 701.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.

¹⁰⁷ Specify any applicable ethical requirements under the relevant laws or regulations applicable to the entity.

INDEPENDENT AUDITOR'S REPORT

To the Partners of ABC & Associates [or Other Appropriate Addressee]

Adverse Opinion

We have audited the financial statements of ABC & Associates (the entity), which comprise the balance sheet as at March 31st 20XX, and the profit and loss account, (*and statement of cash flows*)¹⁰⁸ for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the omission of the information mentioned in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not give a true and fair view of the state of affairs of the entity as at March 31, 20XX, and of its profit/ loss (and its cash flows)¹⁰⁹ for the year then ended in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India.

Basis for Adverse Opinion

The entity's financing arrangements expired and the amount outstanding was payable on March 31, 20XX. The entity has been unable to conclude re-negotiations or obtain replacement financing and is considering filing for bankruptcy. This situation indicates that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern. The financial statements do not adequately disclose this fact.

We conducted our audit in accordance with the Standards on Auditing (SAs) issued by ICAI. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the entity in accordance with the Code of Ethics issued by ICAI, and we

¹⁰⁸ Where applicable.

¹⁰⁹ Where applicable.

Implementation Guide on Reporting Standards

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements¹¹⁰

[Reporting in accordance with SA 700 (Revised) – see Illustration 4 in SA 700 (Revised).¹¹¹]

Auditor’s Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with SA 700 (Revised) – see Illustration 4 in SA 700 (Revised).]

For XYZ & Co
Chartered Accountants
(Firm’s Registration No.)

Signature
(Name of the Member signing the Audit Report)
(Designation¹¹²)
(Membership No.)

Place of Signature:

Date:

¹¹⁰ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

¹¹¹ Paragraphs 34 and 39 of SA 700 (Revised) require wording to be included in the auditor’s report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

¹¹² Partner or Proprietor, as the case may be.

Illustrations of Auditor's Reports Relating to Other Information

- Illustration 1: An auditor's report of a company, whether listed or unlisted, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Illustration 2: An auditor's report of a listed company containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- Illustration 3: An auditor's report of an unlisted company containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- Illustration 4: An auditor's report of a listed company containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report.
- Illustration 5: An auditor's report of a company, whether listed or unlisted, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists.
- Illustration 6: An auditor's report of a company, whether listed or unlisted, containing a qualified opinion when the

Implementation Guide on Reporting Standards

auditor has obtained all of the other information prior to the date of the auditor's report and there is a limitation of scope with respect to a material item in the consolidated financial statements which also affects the other information.

- Illustration 7: An auditor's report of a company, whether listed or unlisted, containing an adverse opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and the adverse opinion on the consolidated financial statements also affects the other information.

Illustration 1 – An auditor’s report of a company, whether listed or unlisted, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a company, whether listed or unlisted (registered under the Companies Act, 2013) using a fair presentation framework. The audit is not a group audit (i.e., SA 600¹¹³ does not apply).
- The financial statements are prepared by management of the company in accordance with the Accounting Standards prescribed under Section 133 of the Companies Act, 2013.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in SA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by ICAI together with the other relevant ethical requirements relating to the audit and the auditor refers to both.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern in accordance with SA 570(Revised).¹¹⁴

¹¹³ SA 600, Using the Work of Another Auditor.

¹¹⁴ SA 570 (Revised), Going Concern.

Implementation Guide on Reporting Standards

- Key audit matters have been communicated in accordance with SA 701.¹¹⁵
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at 31st March 20XX, and the statement of profit and loss, (*statement of changes in equity*)¹¹⁶ and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information [in which are included the returns for the year ended on that date audited by the branch auditors of the company's branches located at (location of branches)]¹¹⁷.

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

¹¹⁵ SA 701, Communicating Key Audit Matters in the Independent Auditor's Report. The Key Audit Matters section is required for listed entities only.

¹¹⁶ Where applicable.

¹¹⁷ Where applicable.

Implementation Guide on Reporting Standards

standalone financial statements give the information required by the Companies Act, 2013 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 20XX, and its profit/loss, (*changes in equity*)¹¹⁸ and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the *Code of Ethics* issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters¹¹⁹

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

¹¹⁸ Where applicable.

¹¹⁹ The Key Audit Matters section is required for listed entities only.

Implementation Guide on Reporting Standards

Other Information [or another title if appropriate, such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

The Company’s Board of Directors is responsible for the other information. The other information comprises the [information included in the X report,¹²⁰ but does not include the financial statements and our auditor’s report thereon.]

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

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with SA 700 (Revised)¹²¹—see Illustration 1 in SA 700 (Revised).]

Auditor’s Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with SA 700 (Revised)—see Illustration 1 in SA 700 (Revised).]

¹²⁰ A more specific description of the other information, such as “the management report and chairman’s statement,” may be used to identify the other information.

¹²¹ SA 700 (Revised), Forming an Opinion and Reporting on Financial Statements.

Implementation Guide on Reporting Standards

Other Matter¹²²

We did not audit the financial statements/information of _____(number) branches included in the standalone financial statements of the Company whose financial statements / financial information reflect total assets of Rs. _____ as at 31st March, 20XX and total revenues of Rs. _____ for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of these branches, is based solely on the report of such branch auditors.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

Reporting in accordance with SA 700 (Revised)–see Illustration 1 in SA 700 (Revised).]

While reporting under Section 143(3) of the Companies Act, 2013, the auditor is required to suitably reword the wordings given in the Illustration in SA 700(Revised) to meet the circumstances of the audit.

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation¹²³)
(Membership No.)

Place of Signature:

Date:

¹²² Where applicable.

¹²³ Partner or Proprietor, as the case may be.

Illustration 2 – An auditor’s report of a listed company containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor’s report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor’s report.

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed company (registered under the Companies Act, 2013) using a fair presentation framework. The audit is not a group audit (i.e., SA 600 does not apply).
- The financial statements are prepared by management of the company in accordance with the Accounting Standards prescribed under Section 133 of the Companies Act 2013.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in SA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by ICAI together with the other relevant ethical requirements relating to the audit and the auditor refers to both.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern in accordance with SA 570 (Revised).
- Key audit matters have been communicated in accordance with SA 701.

Implementation Guide on Reporting Standards

- The auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at 31st March 20XX, and the statement of profit and loss, (*statement of changes in equity*)¹²⁴ and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information [in which are included the returns for the year ended on that date audited by the branch auditors of the company's branches located at (location of branches)]¹²⁵.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Companies Act, 2013 in the manner so required and give a true and fair view in conformity with the accounting

¹²⁴ Where applicable.

¹²⁵ Where applicable.

Implementation Guide on Reporting Standards

principles generally accepted in India, of the state of affairs of the Company as at March 31, 20XX, and its profit/loss, (*changes in equity*)¹²⁶ and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the *Code of Ethics* issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

The Company's Board of Directors is responsible for the other information. The other information comprises the X

¹²⁶ Where applicable.

Implementation Guide on Reporting Standards

report¹²⁷ (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Y report, which is expected to be made available to us after that date.

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

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

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

[When we read the Y report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and *[describe actions applicable under the applicable laws and regulations]*]¹²⁸

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with SA 700 (Revised)–see Illustration 1 in SA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]

¹²⁷ A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

¹²⁸ This additional paragraph may be useful when the auditor has identified an uncorrected material misstatement of the other information obtained after the date of the auditor's report and has a legal obligation to take specific action in response.

Implementation Guide on Reporting Standards

Other Matter¹²⁹

We did not audit the financial statements/information of _____(number) branches included in the standalone financial statements of the Company whose financial statements / financial information reflect total assets of Rs. _____ as at 31st March, 20XX and total revenues of Rs. _____ for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of these branches, is based solely on the report of such branch auditors.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]

While reporting under Section 143(3) of the Companies Act, 2013, the auditor is required to suitably reword the wordings given in the Illustration in SA 700(Revised) to meet the circumstances of the audit.

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation¹³⁰)
(Membership No.)

Place of Signature:

Date:

¹²⁹ Where applicable.

¹³⁰ Partner or Proprietor, as the case may be.

Illustration 3 – An auditor’s report of an unlisted company containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor’s report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor’s report.

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an unlisted company (registered under the Companies Act, 2013) using a fair presentation framework. The audit is not a group audit (i.e., SA 600 does not apply).
- The financial statements are prepared by management of the company in accordance with the Accounting Standards prescribed under Section 133 of the Companies Act 2013.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in SA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by ICAI together with the other relevant ethical requirements relating to the audit and the auditor refers to both.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern in accordance with SA 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SA 701.

Implementation Guide on Reporting Standards

- The auditor has obtained part of the other information prior to the date of the auditor’s report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor’s report.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.

INDEPENDENT AUDITOR’S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the standalone financial statements of ABC Company Limited (“the Company”), which comprise the balance sheet as at 31st March 20XX, and the statement of profit and loss, (*statement of changes in equity*)¹³¹ and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information [in which are included the returns for the year ended on that date audited by the branch auditors of the company’s branches located at (location of branches)]¹³².

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Companies Act, 2013 in the manner so required and give a true and fair view in conformity with the accounting

¹³¹ Where applicable.

¹³² Where applicable.

Implementation Guide on Reporting Standards

principles generally accepted in India, of the state of affairs of the Company as at March 31, 20XX, and its profit/loss, (*changes in equity*)¹³³ and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the *Code of Ethics* issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

The Company's Board of Directors is responsible for the other information. The other information obtained at the date of this auditor's report is [information included in the X report,¹³⁴ but does not include the financial statements and our auditor's report thereon]

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

In connection with our audit of the financial statements, our

¹³³ Where applicable.

¹³⁴ A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

Implementation Guide on Reporting Standards

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with SA 700 (Revised)–see Illustration 1 in SA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]

Other Matter¹³⁵

We did not audit the financial statements/information of _____(number) branches included in the standalone financial statements of the Company whose financial statements / financial information reflect total assets of Rs. _____ as at 31st March, 20XX and total revenues of Rs. _____ for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of these branches, is based solely on the report of such branch auditors.

Our opinion is not modified in respect of this matter.

¹³⁵ Where applicable.

Implementation Guide on Reporting Standards

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).]

While reporting under Section 143(3) of the Companies Act, 2013, the auditor is required to suitably reword the wordings given in the Illustration in SA 700(Revised) to meet the circumstances of the audit.

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit
Report)
(Designation¹³⁶)
(Membership No.)

Place of Signature:

Date:

¹³⁶ Partner or Proprietor, as the case may be.

Illustration 4 – An auditor’s report of a listed company containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor’s report but expects to obtain other information after the date of the auditor’s report.

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed company (registered under the Companies Act, 2013) using a fair presentation framework. The audit is not a group audit (i.e., SA 600 does not apply).
- The financial statements are prepared by management of the company in accordance with the Accounting Standards prescribed under Section 133 of the Companies Act, 2013.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in SA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by ICAI together with the other relevant ethical requirements relating to the audit and the auditor refers to both.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern in accordance with SA 570 (Revised).
- Key audit matters have been communicated in accordance with SA 701.
- The auditor has obtained no other information prior to the date of the auditor’s report but expects to obtain other information after the date of the auditor’s report.

Implementation Guide on Reporting Standards

- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at 31st March 20XX, and the statement of profit and loss, (*statement of changes in equity*)¹³⁷ and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information [in which are included the returns for the year ended on that date audited by the branch auditors of the Company's branches located at (location of branches)]¹³⁸.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Companies Act, 2013 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 20XX, and its profit/loss, (*changes in equity*)¹³⁹ and its cash flows for the year ended on that date.

¹³⁷ Where applicable.

¹³⁸ Where applicable.

¹³⁹ Where applicable.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the *Code of Ethics* issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

The Company's Board of Directors is responsible for the other information. The other information comprises the [information included in the X report¹⁴⁰, but does not include the financial statements and our auditor's report thereon]. The X report is expected to be made available to us after the date of this auditor's report.

¹⁴⁰ A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

Implementation Guide on Reporting Standards

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

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

[When we read the X report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and *(describe actions applicable in the applicable laws and regulations)*.]¹⁴¹

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with SA 700 (Revised)–see Illustration 1 in SA 700 (Revised).]

Auditor’s Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with SA 700 (Revised)–see Illustration 1 in SA 700 (Revised).]

Other Matter¹⁴²

We did not audit the financial statements/information of _____(number) branches included in the standalone financial statements of the Company whose financial statements / financial information reflect total assets of Rs. _____ as at 31st March, 20XX and total revenues of Rs. _____ for the year ended on that date, as considered in the standalone financial statements. The financial

¹⁴¹ This additional paragraph may be useful when the auditor has identified an uncorrected material misstatement of the other information obtained after the date of the auditor’s report and has a legal obligation to take specific action in response.

¹⁴² Where applicable.

Implementation Guide on Reporting Standards

statements/information of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of these branches, is based solely on the report of such branch auditors.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with SA 700 (Revised)–see Illustration 1 in SA 700 (Revised).]

While reporting under Section 143(3) of the Companies Act, 2013, the auditor is required to suitably reword the wordings given in the Illustration in SA 700(Revised) to meet the circumstances of the audit.

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation¹⁴³)
(Membership No.)

Place of Signature:

Date:

¹⁴³ Partner or Proprietor, as the case may be.

Illustration 5 – An auditor’s report of a company, whether listed or unlisted, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor’s report and has concluded that a material misstatement of the other information exists.

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a company, whether listed or unlisted (registered under the Companies Act, 2013) using a fair presentation framework. The audit is not a group audit (i.e., SA 600 does not apply).
- The financial statements are prepared by management of the company in accordance with the Accounting Standards prescribed under Section 133 of the Companies Act, 2013.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in SA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by ICAI together with the other relevant ethical requirements relating to the audit and the auditor refers to both.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern in accordance with SA 570 (Revised).
- Key audit matters have been communicated in accordance with SA 701.

Implementation Guide on Reporting Standards

- The auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at 31st March 20XX, and the statement of profit and loss, (*statement of changes in equity*)¹⁴⁴ and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information [in which are included the returns for the year ended on that date audited by the branch auditors of the Company's branches located at (location of branches)]¹⁴⁵.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Companies Act, 2013 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 20XX, and its profit/loss,

¹⁴⁴ Where applicable.

¹⁴⁵ Where applicable.

Implementation Guide on Reporting Standards

(changes in equity)¹⁴⁶ and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the *Code of Ethics* issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

The Company's Board of Directors is responsible for the other information. The other information comprises the [information included in the X report¹⁴⁷, but does not include the financial statements and our auditor's report thereon.]

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge

¹⁴⁶ Where applicable.

¹⁴⁷ A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

Implementation Guide on Reporting Standards

obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described below, we have concluded that such a material misstatement of the other information exists.

[Description of material misstatement of the other information]

Key Audit Matters¹⁴⁸

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with SA 700 (Revised)—see Illustration 1 in SA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with SA 700 (Revised)—see Illustration 1 in SA 700 (Revised).]

Other Matter¹⁴⁹

We did not audit the financial statements/information of _____(number) branches included in the standalone financial statements of the Company whose financial statements / financial information reflect total assets of

¹⁴⁸ The Key Audit Matters section is required for listed entities only.

¹⁴⁹ Where applicable.

Implementation Guide on Reporting Standards

Rs. _____ as at 31st March, 20XX and total revenues of Rs. _____ for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of these branches, is based solely on the report of such branch auditors.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with SA 700 (Revised)–see Illustration 1 in SA 700 (Revised).]

While reporting under Section 143(3) of the Companies Act, 2013, the auditor is required to suitably reword the wordings given in the Illustration in SA 700(Revised) to meet the circumstances of the audit.

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation¹⁵⁰)
(Membership No.)

Place of Signature:

Date:

¹⁵⁰Partner or Proprietor, as the case may be.

Illustration 6 – An auditor’s report of a company, whether listed or unlisted, containing a qualified opinion when the auditor has obtained all of the other information prior to the date of the auditor’s report and there is a limitation of scope with respect to a material item in the consolidated financial statements which also affects the other information.

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of a company, whether listed or unlisted (registered under the Companies Act, 2013) using a fair presentation framework. The audit is a group audit (i.e., SA 600 applies).
- The consolidated financial statements are prepared by management of the company in accordance with the Accounting Standards prescribed under Section 133 of the Companies Act, 2013.
- The terms of the audit engagement reflect the description of management’s responsibility for the consolidated financial statements in SA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the consolidated financial statements (i.e., a qualified opinion is appropriate).
- The relevant ethical requirements that apply to the audit are the Code of Ethics issued by ICAI and the relevant provisions of the Companies Act, 2013.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with SA 570 (Revised).

Implementation Guide on Reporting Standards

- Key audit matters have been communicated in accordance with SA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the consolidated financial statements also affects the other information.
- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the accompanying consolidated financial statements of ABC Company Limited (hereinafter referred to as the "Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group"), its associates and jointly controlled entities, which comprise the consolidated balance sheet as at March 31, 20XX, and the consolidated statement of profit and loss, (*consolidated statement of changes in equity*)¹⁵¹ and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as "the consolidated financial statements").

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

¹⁵¹ Where applicable.

Implementation Guide on Reporting Standards

possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the aforesaid consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India, of the consolidated state of affairs of the Group, its associates and jointly controlled entities, as at March 31st, 20XX, consolidated profit/loss, (*consolidated changes in equity*)¹⁵² and consolidated cash flows for the year then ended.

Basis for Qualified Opinion

The Group's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at Rs. XXX on the consolidated balance sheet as at March 31, 20XX, and ABC's share of XYZ's net income of XXX is included in ABC's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at March 31, 20XX and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group and its associates and jointly controlled entities in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in India in terms of the Code of Ethics issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 2013, and we have fulfilled our other

¹⁵² Where applicable.

Implementation Guide on Reporting Standards

ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information [or another title if appropriate, such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

The company’s Board of Directors is responsible for the other information. The other information comprises the [information included in the X report¹⁵³, but does not include the consolidated financial statements and our auditor’s report thereon.]

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Qualified Opinion* section above, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC’s investment in XYZ as at March 31, 20XX and ABC’s share of XYZ’s net income for the year. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

Key Audit Matters¹⁵⁴

Key audit matters are those matters that, in our professional

¹⁵³ A more specific description of the other information, such as “the management report and chairman’s statement,” may be used to identify the other information.

¹⁵⁴ The Key Audit Matters section is required for listed entities only.

Implementation Guide on Reporting Standards

judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with SA 700 (Revised)—see Illustration 2 in SA 700 (Revised).]

Auditor’s Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with SA 700 (Revised)—see Illustration 2 in SA 700 (Revised).]

Other Matters

(a) We did not audit the financial statements / financial information of _____ subsidiaries, and _____ jointly controlled entities, whose financial statements / financial information reflect total assets of Rs. _____ as at 31st March, 20XX, total revenues of Rs. _____ and net cash flows amounting to Rs. _____ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group’s share of net profit/loss of Rs. _____ for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of _____ associates, whose financial statements / financial information have not been audited by us. These financial statements / financial information have been audited by other auditors whose reports have been furnished to us

Implementation Guide on Reporting Standards

by the management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities and associates, and our report in terms of sub-section (3) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries, jointly controlled entities and associates, is based solely on the reports of the other auditors.

- (b) We did not audit the financial statements / financial information of _____ subsidiaries and _____ jointly controlled entities, whose financial statements / financial information reflect total assets of Rs. _____ as at 31st March, 20XX, total revenues of Rs. _____ and net cash flows amounting to Rs. _____ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs. _____ for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of _____ associates, whose financial statements / financial information have not been audited by us. These financial statements / financial information are unaudited and have been furnished to us by the management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities and associates, and our report in terms of sub-section (3) of Section 143 of the Act in so far as it relates to the aforesaid subsidiaries, jointly controlled entities and associates, is based solely on such unaudited financial statements / financial information. In our opinion and according to the information and explanations given to us by the management, these financial statements / financial information are not material to the Group.

Our opinion on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with

Implementation Guide on Reporting Standards

respect to our reliance on the work done and the reports of the other auditors and the financial statements / financial information certified by the management.

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with SA 700 (Revised)–see Illustration 2 in SA 700 (Revised).]

While reporting under Section 143(3) of the Companies Act, 2013, the auditor is required to suitably reword the wordings given in the Illustration in SA 700(Revised) to meet the circumstances of the audit.

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation¹⁵⁵)
(Membership No.)

Place of Signature:

Date:

¹⁵⁵ Partner or Proprietor, as the case may be.

Illustration 7 – An auditor’s report of a company, whether listed or unlisted, containing an adverse opinion when the auditor has obtained all of the other information prior to the date of the auditor’s report and the adverse opinion on the consolidated financial statements also affects the other information.

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of a company, whether listed or unlisted (registered under the Companies Act, 2013) using a fair presentation framework. The audit is a group audit (i.e., SA 600 applies).
- The consolidated financial statements are prepared by management of the company in accordance with the Accounting Standards prescribed under Section 133 of the Companies Act, 2013.
- The terms of the audit engagement reflect the description of management’s responsibility for the consolidated financial statements in SA 210.
- The consolidated financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so (i.e., an adverse opinion is appropriate).
- The relevant ethical requirements that apply to the audit are the Code of Ethics issued by ICAI and the relevant provisions of the Companies Act, 2013.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with SA 570 (Revised).

Implementation Guide on Reporting Standards

- Key audit matters have been communicated in accordance with SA 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and the matter giving rise to the adverse opinion on the consolidated financial statements also affects the other information.
- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.

INDEPENDENT AUDITOR’S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Consolidated Financial Statements

Adverse Opinion

We have audited the accompanying consolidated financial statements of ABC Company Limited (hereinafter referred to as the “Holding Company”) and its subsidiaries (the Holding Company and its subsidiaries together referred to as “the Group”), its associates and jointly controlled entities, which comprise the consolidated balance sheet as at March 31, 20XX, the consolidated statement of profit and loss, (*consolidated statement of changes in equity*)¹⁵⁶ and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the “consolidated financial statements”).

In our opinion and to the best of our information and

¹⁵⁶ Where applicable.

Implementation Guide on Reporting Standards

according to the explanations given to us, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying consolidated financial statements do not give a true and fair view in conformity with the accounting principles generally accepted in India, of the consolidated state of affairs of the Group, its associates and jointly controlled entities, as at March 31, 20XX, of its consolidated profit/loss, (*consolidated position of changes in equity*)¹⁵⁷ and the consolidated cash flows for the year then ended.

Basis for Adverse Opinion

As explained in Note X, the Group has not consolidated subsidiary XYZ Company that the Group acquired during 20XX because it has not yet been able to determine the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under the accounting principles generally accepted in India, the Group should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had XYZ Company been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

We conducted our audit in accordance with Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group and its associates and jointly controlled entities in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in India in terms of the Code of Ethics issued by the Institute of

¹⁵⁷ Where applicable.

Implementation Guide on Reporting Standards

Chartered Accountants of India and the relevant provisions of the Companies Act, 2013, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Other Information [or another title if appropriate, such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

The company’s Board of Directors is responsible for the other information. The other information comprises the [information included in the X report¹⁵⁸, but does not include the consolidated financial statements and our auditor’s report thereon.]

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Adverse Opinion* section above, the Group should have consolidated XYZ Company and accounted for the acquisition based on provisional amounts. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the X report affected by the failure to consolidate XYZ Company.

¹⁵⁸ A more specific description of the other information, such as “the management report and chairman’s statement,” may be used to identify the other information.

Implementation Guide on Reporting Standards

Key Audit Matters¹⁵⁹

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Adverse Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with SA 700 (Revised)–see Illustration 2 in SA 700 (Revised).]

Auditor’s Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with SA 700 (Revised)–see Illustration 2 in SA 700 (Revised).]

Other Matters

(a) We did not audit the financial statements / financial information of _____ subsidiaries, and _____ jointly controlled entities, whose financial statements / financial information reflect total assets of Rs. _____ as at 31st March, 20XX, total revenues of Rs. _____ and net cash flows amounting to Rs. _____ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group’s share of net profit/loss of Rs. _____ for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of

¹⁵⁹ The Key Audit Matters section is required for listed entities only.

Implementation Guide on Reporting Standards

____ associates, whose financial statements / financial information have not been audited by us. These financial statements / financial information have been audited by other auditors whose reports have been furnished to us by the management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities and associates, and our report in terms of sub-section (3) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries, jointly controlled entities and associates, is based solely on the reports of the other auditors.

- (b) We did not audit the financial statements / financial information of _____ subsidiaries and _____ jointly controlled entities, whose financial statements / financial information reflect total assets of Rs. _____ as at 31st March, 20XX, total revenues of Rs. _____ and net cash flows amounting to Rs. _____ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs. _____ for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of ____ associates, whose financial statements / financial information have not been audited by us. These financial statements / financial information are unaudited and have been furnished to us by the management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities and associates, and our report in terms of sub-section (3) of Section 143 of the Act in so far as it relates to the aforesaid subsidiaries, jointly controlled entities and associates, is based solely on such unaudited financial statements/financial information. In our opinion and according to the information and explanations given to us by the Management, these financial statements / financial information are not material to the Group.

Implementation Guide on Reporting Standards

Our opinion on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements / financial information certified by the Management.

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with SA 700 (Revised)–see Illustration 2 in SA 700 (Revised).]

While reporting under Section 143(3) of the Companies Act, 2013, the auditor is required to suitably reword the wordings given in the Illustration in SA 700(Revised) to meet the circumstances of the audit.

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation¹⁶⁰)
(Membership No.)

Place of Signature:

Date:

¹⁶⁰ Partner or Proprietor, as the case may be.