Auditing and Assurance Standard (AAS) 28

The Auditor's Report on Financial Statements

The following is the text of the Auditing and Assurance Standard (AAS) 28, "The Auditor's Report on Financial Statements" issued by the Council of the Institute of Chartered Accountants of India[1]. This standard should be read in conjunction with the "Preface to the Statements on Standard Auditing Practices" issued by the Institute [2].

INTRODUCTION

1. The purpose of this Auditing and Assurance Standard (AAS) is to establish standards on the form and content of the auditor's report issued as a result of an audit performed by an auditor of the financial statements of an entity. Much of the standards laid down by this AAS can be adapted to auditor's reports on financial information other than financial statements.

2. **The auditor should review and assess the conclusions drawn from the audit evidence obtained as the basis for the expression of an opinion on the financial statements.**

3. This review and assessment involves considering whether the financial statements have been prepared in accordance with an acceptable financial reporting framework applicable to the entity under audit. It is also necessary to consider whether the financial statements comply with the relevant statutory requirements.

4. **The auditor's report should contain a clear written expression of opinion on the financial statements taken as a whole.**

BASIC ELEMENTS OF THE AUDITOR'S REPORT

5. The auditor's report includes the following basic elements, ordinarily, in the following layout:
   (a) Title;
   (b) Addressee;
   (c) Opening or introductory paragraph
      (i) identification of the financial statements audited;
      (ii) a statement of the responsibility of the entity's management and the responsibility of the auditor;
   (d) Scope paragraph (describing the nature of an audit)

1 Issued in January 2003. From the date this AAS becomes effective, the Format of Audit Report (Revised) [published in April 2002 issue of the 'The Chartered Accountant', p.1229] and the Announcement regarding revision of Format of Audit Report [published in December 2002 issue of the 'The Chartered Accountant', p.616] shall stand withdrawn.

2 With the formation of the Auditing Practices Committee {now known as the Auditing and Assurance Standards Board} in 1982, the Council of the Institute has been issuing a series of Statements on Standard Auditing Practices (SAPs). SAPs have been renamed as Auditing and Assurance Standards (AASs). The Auditing and Assurance Standards (hitherto known as SAPs) lay down the principles governing an audit. These principles apply whenever an independent audit is carried out. Auditing and Assurance Standards become mandatory on the dates specified in the respective AAS. Their mandatory status implies that, while discharging their attest function, it will be the duty of the members of the Institute to ensure that the AASs are followed in the audit of financial information covered by their audit reports. If, for any reason, a member has not been able to perform an audit in accordance with the AASs, his report should draw attention to the material departures therefrom. The Auditing and Assurance Standards have the same authority as that attached to the Statements on Standard Auditing Practices.

(i) a reference to the auditing standards generally accepted in India;
(ii) a description of the work performed by the auditor;

(e) Opinion paragraph containing
(i) a reference to the financial reporting framework used to prepare the financial statements; and
(ii) an expression of opinion on the financial statements;

(f) Date of the report;

(g) Place of signature; and

(h) Auditor's signature.

A measure of uniformity in the form and content of the auditor's report is desirable because it helps to promote the reader's understanding of the auditor's report and to identify unusual circumstances when they occur.

6. A statute governing the entity or a regulator may require the auditor to include certain matters in the audit report or prescribe the form in which the auditor should issue his report. In such a case, the auditor should incorporate in his audit report, the matters specified by the statute or regulator and/or report in the form prescribed by them in addition to the requirements of this AAS.

Title

7. **The auditor's report should have an appropriate title.** It may be appropriate to use the term "Auditor's Report" in the title to distinguish the auditor's report from reports that might be issued by others, such as by the officers of the entity, the board of directors, or from the reports of others.

Addressee

8. **The auditor's report should be appropriately addressed as required by the circumstances of the engagement and applicable laws and regulations.** Ordinarily, the auditor's report is addressed to the authority appointing the auditor.

Opening or Introductory Paragraph

9. **The auditor's report should identify the financial statements[3] of the entity that have been audited, including the date of and period covered by the financial statements.**

10. **The report should include a statement that the financial statements are the responsibility of the entity's management and a statement that the responsibility of the auditor is to express an opinion on the financial statements based on the audit.**

11. Financial statements are the representations of management. The preparation of such statements requires management to make significant accounting estimates and judgments, as well as to determine the appropriate accounting principles and methods used in preparation of the financial statements. This determination will be made in the context of the financial reporting framework that management chooses, or is required to use. In contrast, the auditor's responsibility is to audit these financial statements in order to express an opinion thereon.

12. An illustration of these matters in an opening (introductory) paragraph is:

"We have audited the attached balance sheet of ……. (*Name of the entity*) as at 31st March 2XXX and also the profit and loss account for the year ended on that date annexed thereto. These financial statements are the responsibility of the entity's management. Our responsibility is to express an opinion on these financial statements based on our audit."

[3] The Council of the Institute has made Accounting Standard (AS) 3, Cash Flow Statements mandatory for certain entities in respect of accounting periods commencing on or after 1.4.2001. Further, the Council has also decided that AS 3 should also be treated as a "specified" accounting standard for the purpose of section 211 of the Companies Act, 1956 and thereby making the cash flow statements a part of the balance sheet and profit and loss account. However, irrespective of the fact that the cash flow statement is considered to be a part of the balance sheet and profit and loss account, the opening or the introductory paragraph of the auditor's report on financial statements of such companies and other entities for which AS 3 has been made mandatory, would also identify the cash flow statement as a part of the financial statements audited apart from the balance sheet and profit and loss account. Similar reporting considerations would also apply to the entities which, though not required to comply with AS 3 in view of its not being mandatory for them, voluntarily prepare the cash flow statements. Further, in the above mentioned cases, the auditor's report on financial statements would also contain an expression of opinion on the true and fair view of the cash flows for the period under audit (refer Appendix for an Illustrative Auditor's Report on the Financial Statements in the case of a company for which AS 3 has been made mandatory).

Scope Paragraph

13 The auditor's report should describe the scope of the audit by stating that the audit was conducted in accordance with auditing standards generally accepted in India. The reader needs this as an assurance that the audit has been carried out in accordance with established standards.

14. "Scope" refers to the auditor's ability to perform audit procedures deemed necessary in the circumstances. Auditing and Assurance Standard (AAS) 2, "Objective and Scope of the Audit of Financial Statements" with regard to the determination of the "scope" states (paragraph 5):

> "The scope of an audit of financial statements will be determined by the auditor having regard to the terms of the engagement, the requirements of relevant legislation and the pronouncements of the Institute. The terms of engagement cannot, however, restrict the scope of an audit in relation to matters which are prescribed by legislation or by the pronouncements of the Institute."

15. The Auditing and Assurance Standards issued by the Institute of Chartered Accountants of India establish the auditing standards generally accepted in India.

16. The report should include a statement that the audit was planned and performed to obtain reasonable assurance whether the financial statements are free of material misstatement.

17. The auditor's report should describe the audit as including:

(a) examining, on a test basis, evidence to support the amounts and disclosures in financial statements;

(b) assessing the accounting principles used in the preparation of the financial statements;

(c) assessing the significant estimates made by management in the preparation of the financial statements; and

(d) evaluating the overall financial statement presentation.

18. The report should include a statement by the auditor that the audit provides a reasonable basis for his opinion.

19. An illustration of these matters in a scope paragraph is:

> "We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion."

Opinion Paragraph

20. The opinion paragraph of the auditor's report should clearly indicate the financial reporting framework used to prepare the financial statements and state the auditor's opinion as to whether the financial statements give a true and fair view in accordance with that financial reporting framework and, where appropriate, whether the financial statements comply with the statutory requirements.

21. The term used to express the auditor's opinion, "give a true and fair view", indicates, amongst other things, that the auditor considers only those matters that are material to the financial statements.

22. Paragraph 3 of Framework of Statements on Standard Auditing Practices and Guidance Notes on Related Services, issued by the Institute of Chartered Accountants of India, discusses the financial reporting framework. The paragraph reads as under:

> "Financial Reporting Framework
>
> Financial statements are ordinarily prepared and presented annually and are directed towards the common information needs of a wide range of users. Many of those users rely on financial statements as their major source of information because they do not have the power to obtain additional information to meet their specific information needs. Thus, financial statements need to be prepared in accordance with one, or a combination of:
>
> (a) relevant statutory requirements, e.g., the Companies Act, 1956, for companies;
>
> (b) accounting standards issued by the Institute of Chartered Accountants of India; and
>
> (c) other recognised accounting principles and practices, e.g., those recommended in the Guidance Notes issued by the Institute of Chartered Accountants of India."

23. An illustration of these matters in an opinion paragraph is:

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

(a) in the case of the balance sheet, of the state of affairs of the ..... (name of the entity) as at 31st March 2XXX; and

(b) in the case of the profit and loss account, of the profit/loss for the year ended on that date.

24. In addition to an opinion on the true and fair view, the auditor's report may need to include an opinion as to whether the financial statements comply with other requirements specified by relevant statutes or law. For example, in the case of companies incorporated under the Companies Act, 1956, section 227(2) of the said Act requires that the auditor's report should state in his audit report, whether in the auditor's opinion and to the best of his information and according to the explanations given to the auditor, the financial statements give the information required by the Companies Act, 1956 in the manner so required[4].

Date of Report

25. **The date of an auditor's report on the financial statements is the date on which the auditor signs the report expressing an opinion on the financial statements.** The date of report informs the reader that the auditor has considered the effect on the financial statements and on the report of the events and transactions of which the auditor became aware and that occurred up to that date.

26. **Since the auditor's responsibility is to report on the financial statements as prepared and presented by management, the auditor should not date the report earlier than the date on which the financial statements are signed or approved by management.**

Place of Signature

27. **The report should name specific location, which is ordinarily the city where the audit report is signed.**

Auditor's Signature

28. **The report should be signed by the auditor in his personal name. Where the firm is appointed as the auditor, the report should be signed in the personal name of the auditor and in the name of the audit firm. The partner/proprietor signing the audit report should also mention the membership number assigned by the Institute of Chartered Accountants of India.**

THE AUDITOR'S REPORT

29. **An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view in accordance with the financial reporting framework used for the preparation and presentation of the financial statements.** An unqualified opinion indicates, implicitly, that any changes in the accounting principles or in the method of their application, and the effects thereof, have been properly determined and disclosed in the financial statements. An unqualified opinion also indicates that:

(a) the financial statements have been prepared using the generally accepted accounting principles, which have been consistently applied;

(b) the financial statements comply with relevant statutory requirements and regulations; and

(c) there is adequate disclosure of all material matters relevant to the proper presentation of the financial information, subject to statutory requirements, where applicable.

30. The following is an illustration of a complete auditor's report incorporating the basic elements set forth and illustrated above. This report illustrates the expression of an unqualified opinion.

"Auditor's Report

(Appropriate Addressee)

We have audited the attached balance sheet of ..... (*Name of the entity*) as at 31st March 2XXX and also the profit and loss account for the year ended on that date annexed thereto.[5] These financial statements are the responsibility of the entity's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with audit-

[4]Refer Appendix for an illustration of the opinion paragraph in the case of a company incorporated under the Companies Act, 1956. Also refer footnote 3 for applicability of AS 3 to an entity and the auditor's duties and responsibilities in this regard.

[5]Refer footnote 3.

ing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:[6]

(a) in the case of the balance sheet, of the state of affairs of …….. (Name of the entity) as at 31st March 2XXX; and

(b) in the case of the profit and loss account, of the profit/loss for the year ended on that date.

For ABC and Co.,
Chartered Accountants

Auditor's Signature
(Name of Member signing the Audit Report)
(Designation[7])
(Membership Number)

Place of Signature
Date

An Illustration of Auditor's Report on the Financial Statements in the case of a company incorporated under the Companies Act, 1956 to which AS 3 is applicable is given in Appendix.

MODIFIED REPORTS[8]

31. An auditor's report is considered to be modified when it includes:

(a) Matters That Do Not Affect the Auditor's Opinion

- emphasis of matter

(b) Matters That Do Affect the Auditor's Opinion

- qualified opinion
- disclaimer of opinion
- adverse opinion

Uniformity in the form and content of each type of modified report will enhance the user's understanding of such reports. Accordingly, this AAS includes suggested wordings to express an unqualified opinion as well as examples of modifying phrases for use when issuing modified reports.

Matters That Do Not Affect the Auditor's Opinion

32. In certain circumstances, an auditor's report may be modified by adding an emphasis of matter paragraph to highlight a matter affecting the financial statements which is included in a note to the financial statements that more extensively discusses the matter. The addition of such an emphasis of matter paragraph does not affect the auditor's opinion. The paragraph would preferably be included preceding the opinion paragraph and would ordinarily refer to the fact that the auditor's opinion is not qualified in this respect.

33. The auditor should modify the auditor's report by adding a paragraph to highlight a material matter regarding a going concern problem where the going concern question is not resolved and adequate disclosures have been made in the financial statements.

34. The auditor should consider modifying the auditor's report by adding a paragraph if there is a significant uncertainty (other than going concern problem), the resolution of which is dependent upon future events and which may affect the financial statements. An uncertainty is a matter whose outcome depends on future actions or events not under the direct control of the entity but that may affect the financial statements.

35. An illustration of an emphasis of matter paragraph for a significant uncertainty in an auditor's report is as follows:

"Without qualifying our opinion, we draw attention to Note X of Schedule …… to the financial statements the entity is the defendant in a lawsuit

6 *Ibid.*

7 Partner or proprietor, as the case may be.

8 This AAS lays down the basic principles that govern the auditor's report on financial statements. The reporting requirements contained in other AASs issued by the Council of the Institute would also be applicable.

alleging infringement of certain patent rights and claiming royalties and punitive damages. The entity has filed a counter action, and preliminary hearings and discovery proceedings on both actions are in progress. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

In our opinion …….. (*remaining words are the same as illustrated in the opinion paragraph--paragraph 30 above*)."

(An illustration of an emphasis of matter paragraph relating to going concern is set out in AAS 16, "Going Concern.")

36. The addition of a paragraph emphasising a going concern problem or significant uncertainty is ordinarily adequate to meet the auditor's reporting responsibilities regarding such matters. However, in extreme cases, such as situations involving multiple uncertainties that are significant to the financial statements, the auditor may consider it appropriate to express a disclaimer of opinion instead of adding an emphasis of matter paragraph.

Matters that Do Affect the Auditor's Opinion

37. An auditor may not be able to express an unqualified opinion when either of the following circumstances exists and, in the auditor's judgment, the effect of the matter is or may be material to the financial statements:

    (a) there is a limitation on the scope of the auditor's work; or

    (b) there is a disagreement with management regarding the acceptability of the accounting policies selected, the method of their application or the adequacy of financial statement disclosures.

    The circumstances described in (a) could lead to a qualified opinion or a disclaimer of opinion. The circumstances described in (b) could lead to a qualified opinion or an adverse opinion. These circumstances are discussed in paragraphs 42-47.

38. **A *qualified opinion* should be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management is not so material and pervasive as to require an adverse opinion, or limitation on scope is not so material and pervasive as to require a disclaimer of opinion. A qualified opinion should be expressed as being 'subject to' or 'except for' the effects of the matter to which the qualification relates.**

39. **A *disclaimer of opinion* should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and is, accordingly, unable to express an opinion on the financial statements.**

40. **An *adverse opinion* should be expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.**

41. **Whenever the auditor expresses an opinion that is other than unqualified, a clear description of all the substantive reasons should be included in the report and, unless impracticable, a quantification of the possible effect(s), individually and in aggregate, on the financial statements should be mentioned in the auditor's report.** In circumstances where it is not practicable to quantify the effect of modifications made in the audit report accurately, the auditor may do so on the basis of estimates made by the management after carrying out such audit tests as are possible and clearly indicate the fact that the figures are based on management estimates. Ordinarily, this information would be set out in a separate paragraph preceding the opinion or disclaimer of opinion and may include a reference to a more extensive discussion, if any, in a note to the financial statements.

CIRCUMSTANCES THAT MAY RESULT IN OTHER THAN AN UNQUALIFIED OPINION

Limitation on Scope

42. A limitation on the scope of the auditor's work may sometimes be imposed by the entity, for example, when the terms of the engagement specify that the auditor will not carry out an audit procedure that the auditor believes is necessary. However, when the limitation in the terms of a proposed engagement is such that the auditor believes the need to express a disclaimer of opinion exists; the auditor should ordinarily not accept such a limited engagement as an audit engagement, unless required by statute. Also, a statutory auditor should not accept such an audit engagement when the limitation infringes on the auditor's statutory duties.

43. A scope limitation may be imposed by circumstances, for example, when the timing of the auditor's appointment is such that the auditor is unable to observe the counting of physical inventories. It may also arise when, in the opinion of the auditor, the entity's accounting records are inadequate or when the auditor is unable to carry out an audit procedure believed to be desirable. In these circumstances, the auditor would attempt to carry out reasonable alternative procedures to obtain sufficient appropriate audit evidence to support an unqualified opinion.

44. When there is a limitation on the scope of the auditor's work that requires expression of a qualified opinion or a disclaimer of opinion, the auditor's report should describe the limitation and indicate the possible adjustments to the financial statements that might have been determined to be necessary had the limitation not existed.

45. Illustrations of these matters are set out below.

Limitation on Scope--Qualified Opinion

"We have audited …….. *(remaining words are the same as illustrated in the introductory paragraph--paragraph 30 above).*

Except as discussed in the following paragraph, we conducted our audit in accordance with ……. *(remaining words are the same as illustrated in the scope paragraph--paragraph 30 above).*

We did not observe the counting of the physical inventories as at 31st March 2XXX since that date was prior to the time we were appointed as auditors of…….(Name of the entity). Owing to the nature of the entity's records, we were unable to satisfy ourselves as to inventory quantities by other audit procedures.

In our opinion and to the best of our information and according to the explanations given to us, subject to the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to physical inventory quantities, the financial statements give a ……. *(remaining words are the same as illustrated in the opinion paragraph--paragraph 30 above)."*

Limitation on Scope--Disclaimer of Opinion

"We were engaged to audit the attached balance sheet of ……..(Name of the entity) as at 31st March 2XXX and also the profit and loss account for the year ended on that date annexed thereto. These financial statements are the responsibility of the entity's management. (Omit the sentence stating the responsibility of the auditor).

(The paragraph discussing the scope of the audit would either be omitted or amended according to the circumstances.)

(Add a paragraph discussing the scope limitation as follows:)

We were not able to observe all physical inventories and confirm accounts receivable due to limitations placed on the scope of our work by the entity.

Because of the significance of the matters discussed in the preceding paragraph, we do not express an opinion on the financial statements. "

Disagreement with Management

46. The auditor may disagree with management about matters such as the acceptability of accounting policies selected, the method of their application, or the adequacy of disclosures in the financial statements. **If such disagreements are material to the financial statements, the auditor should express a qualified or an adverse opinion.**

47. Illustrations of these matters are set out below.

Disagreement on Accounting Policies-Inappropriate Accounting Method--Qualified Opinion

"We have audited …….. *(remaining words are the same as illustrated in the introductory paragraph--paragraph 30 above).*

We conducted our audit in accordance with ……. *(remaining words are the same as illustrated in the scope paragraph--paragraph 30 above).*

As stated in Note X of Schedule ……. to the financial statements, no depreciation has been provided for the period in the financial statements. This is contrary to Accounting Standard (AS) 6 on "Depreciation Accounting", issued by the Institute of Chartered Accountants of India and the accounting policy being followed by the entity according to which depreciation is provided on straight line basis. Had this accounting policy been followed, the provision for depreciation for the period would have been Rs..... This short provisioning for depreciation has resulted into the profit for the year, fixed assets and reserves and surplus being overstated by Rs…….

Or

As stated in Note X of Schedule …….. to the financial statements, hire purchase sales have been treated as outright sales by the entity and contrary to accepted accounting practice, the entire profit thereon has been taken into account. The profit relating to installment not due as at the date of the balance sheet and included in profit for the year amounted to Rs…….. This has resulted in the profit for the year, inventories and reserve and surplus being overstated by Rs ……

In our opinion and to the best of our information and according to the explanations given to us, subject to the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements give a true and ... *(remaining words are the same as illustrated in the opinion paragraph--paragraph 30 above)*."

Disagreement on Accounting Policies--Inadequate Disclosure--Qualified Opinion

"We have audited …….. *(remaining words are the same as illustrated in the introductory paragraph--paragraph 30 above)*.

We conducted our audit in accordance with ……..... *(remaining words are the same as illustrated in the scope paragraph--paragraph 30 above)*.

On 15th January 2XXX, the …….. (Name of the entity) issued debentures in the amount of Rs.XXX. for the purpose of financing plant expansion. The debentures agreement restricts the payment of future cash dividends to earnings after 31st March 2XXX. In our opinion, disclosure of this information is required by .....

In our opinion and to the best of our information and according to the explanations given to us, subject to the omission of the information included in the preceding paragraph, the financial statements give a true and ……. (remaining words are the same as illustrated in the opinion paragraph, paragraph 30 above)."

Disagreement on Accounting Policies - Inadequate Disclosure - Adverse Opinion

"We have audited the attached balance sheet of ……. (Name of the entity), as at 31st March 2XXX, and also the profit and loss account for the year ended on that date annexed thereto[9]. These financial statements are the responsibility of the entity's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with …….. (*remaining words are the same as illustrated in the scope paragraph--paragraph 30 above*).

(Paragraph(s) discussing the disagreement).

In our opinion and to the best of our information and according to the explanations given to us, because of the effects of the matters discussed in the preceding paragraph(s), the financial statements do not give a true and fair view in conformity with the accounting principles generally accepted in India:[10]

(a) in the case of the balance sheet, of the state of affairs of the company as at 31st March 2XXX; and

(b) in the case of the profit and loss account, of the profit/loss for the year ended on that date.

EFFECTIVE DATE

48. This Auditing and Assurance Standard becomes operative for all audits relating to accounting periods beginning on or after 1st April 2003. Earlier application of the AAS is encouraged.

COMPATIBILITY WITH THE INTERNATIONAL STANDARD ON AUDITING (ISA) 700

The auditing standards established in this Auditing and Assurance Standard are generally consistent in all material respects with those set out in the International Standard on Auditing (ISA) 700, The Auditor's Report on Financial Statements, except the following:

(a) Due to the practices prevailing in India, the AAS requires the auditor to mention the "Place of Signature" instead of the "Auditor's Address" in the auditors report. The place of signature is the name of specific location, which is ordinarily the city where the audit report is signed [see paragraph 27]. According

9 Refer footnote 3

10 *Ibid.*

to ISA 700, the expression "Auditor's Address" means the name of a specific location, which is ordinarily the city where the auditor maintains the office that has the responsibility for the audit.

(b) The AAS requires the auditor to mention the membership number assigned by the Institute of Chartered Accountants of India [see paragraph 28]. ISA 700, however, does not contain any corresponding requirement.

(c) The AAS requires that whenever the auditor expresses an opinion that is other than unqualified, a clear description of all the substantive reasons should be included in the report and, unless impracticable, a quantification of the possible effect(s), individually and in aggregate, on the financial statements should be mentioned in the auditor's report [see paragraph 41]. ISA 700 does not require the auditor to quantify the possible effect(s) in aggregate on the financial statements.

Appendix

Illustrative Auditor's Report on the Financial Statements in the Case of a Company Incorporated Under the Companies Act, 1956 to which AS 3 is applicable[11]

[see paragraph 30]

Auditor's Report[12]

The Members of .....(*name of the Company*)[12]

We have audited the attached balance sheet of ..... (*name of the company*), as at 31st March 2XXX, and also the profit and loss account and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure[13] a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred to above, we report that:

(i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

(ii) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books (and proper returns adequate for the purposes of our audit have been received from the branches not visited by us. The Branch Auditor's Report(s) have been forwarded to us and have been appropriately dealt with)[14];

(iii) The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account (and with the audited returns from the branches)[15];

(iv) In our opinion, the balance sheet, profit and loss account

[11] In case AS 3 is not applicable to a company and such company also does not voluntarily prepare the cash flow statement, the references to cash flow statement should be deleted from the entire report.

[12] Reference may also be made to the Statement on Qualifications in Auditor's Report and the Guidance Note on Section 227(3) (e) and (f) of the Companies Act, 1956 issued by the Institute of Chartered Accountants of India.

[13] Alternatively, instead of giving the comments on Manufacturing and Other Companies (Auditor's Report) Order, 1988 in an Annexure, the comments may be contained in the body of the main report. Members' attention in this regard is invited to the Statement on Manufacturing and Other Companies (Auditor's Report) Order, 1988 [issued under Section 227(4A) of the Companies Act, 1956] , issued by the Institute of Chartered Accountants of India. It may also be noted that requirements of the Manufacturing and Other Companies (Auditor's Report) Order, 1988 have not been reproduced in this illustration.

[14] Wherever applicable.

and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;

(v) On the basis of written representations received from the directors, as on 31st March 2XXX and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 2XXX from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

(vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the balance sheet, of the state of affairs of the company as at 31st March 2XXX;

(b) in the case of the profit and loss account, of the profit / loss[16] for the year ended on that date; and

(c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

For ABC and Co.
Chartered Accountants
Signature
(Name of the Member Signing the Audit Report)
(Designation[17])
Membership Number

Place of Signature

Date

15 Wherever applicable.

16 Whichever applicable.

17 Partner or proprietor, as the case may be.