

Revised Auditor's Report Format – An Overview (SA 700 REVISED, SA 705 AND SA 706)¹

Auditor's report is culmination of the work of the auditor. It is like a mouthpiece of the auditor and a medium of communication with the various stakeholders. In the year 2003, the Institute of Chartered Accountants of India issued SA 700, *The Auditor's Report on Financial Statements* (then known as Auditing & Assurance Standard {AAS} 28), corresponding to the existing International Standard on Auditing (ISA) 700. The Standard laid down the basic principles governing the formation of auditor's opinion on the truth and fairness of the financial statements as also the basic elements of the auditor's report. One of the objectives was to bring in uniformity in the auditor's reporting practices in the country. The Standard contained guidance on various types of audit opinions that could be issued, viz., qualified, adverse and disclaimer. For the first time, it also introduced the concept of an Emphasis of Matter paragraph in the auditor's report.

The 2008 financial crisis brought to fore the increasing demand from the stakeholders, globally, for greater clarity and information in the auditor's report. Particularly, a need was felt to clearly bring out the duties and responsibilities of the management vis a vis the auditors as also the scope of an audit. Accordingly, to respond to these needs of the stakeholders and to strengthen the guidance to the auditors in use of different types of audit opinions, the International Auditing and Assurance Standards Board (IAASB) revised its then existing ISA 700. Under its Clarity Project, IAASB split the erstwhile ISA 700 into three separate International Standards on Auditing (ISAs) as follows:

- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*
- ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*
- ISA 706, *Emphasis of Matter Paragraphs in the Independent Auditor's Report*

Following these international developments, in the year 2010, the Institute of Chartered Accountants of India, also revised its SA 700 (AAS 28) and issued three separate Standards on Auditing (SA) to deal

with the form and content of an independent auditor's report as also the various types of opinion that may be included in the auditor's report corresponding to the aforementioned ISAs. These Standards are:

- SA 700 (Revised), *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 in the Independent Auditor's Report*.

SA 700 (Revised), as the name makes clear, deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements. The Standard, unlike its predecessor dealt only with situations where a clean opinion was being issued by the auditor. The concepts of qualified, adverse and disclaimer of opinion being dealt with by a separate SA 705.

SA 705, *Modifications to the Opinion in the Independent Auditor's Report* deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700 (Revised)², the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary. Thus, it contains detailed guidance on the existing concepts of qualified, adverse and disclaimer of opinion.

SA 706, *Emphasis of Matter Paragraphs in the Independent Auditor's Report* deals with additional communication in the auditor's report when the auditor considers it necessary to:

- 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
- 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.

SA 706 envisages two types of such additional communications, one, through an Emphasis of

¹ Contributed by Auditing & Assurance Standard Board Secretariat. The views presented herein do not necessarily represent the views of Auditing and Assurance Standards Board.

² SA 700 (Revised), "Forming an Opinion and Reporting on Financial Statements".

Matter Paragraph and the second, through the Other Matter Paragraph. As per SA 706, an ***Emphasis of Matter paragraph*** is 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. Further, SA 706 also introduced the concept of ***Other Matter paragraph***. It is 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 so far as the basic principles relating to elements of the auditor's report and their presentation is concerned, they are still retained in the SA 700 (Revised), albeit, some improvements to the format of the auditor's report prescribed by the Revised SA 700 to address the stakeholders' information needs. These are:

- Additional description with respect to the responsibilities of the management for the financial statements
- Extensive description with respect to the responsibilities of the auditor
- Segregation of auditor's opinion on financial statements to stand out distinctly from auditor's report on other aspects as may be required by the relevant law/ regulations.
- Following titles be given to the relevant sections of the audit report:
 - Management's responsibility for the financial statements
 - Auditor's responsibility
 - Basis of Qualified/ Adverse/ Disclaimer of opinion (*if so required in terms of SA 705, Modifications to the Opinion in the Independent Auditor's Report*)
 - Opinion
 - Emphasis of Matter (*if so required in terms of SA 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*)
 - Report on Other Legal and Regulatory Requirements (*To cover reporting on aspects such as section 227(1A) and 227(3) of the Companies Act, 1956*)

All the three aforementioned Standards are applicable for audits of financial statements for periods commencing on or after 1st April, 2012. ■