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Audit Report

8.1 Auditor's Opinion

At the end of every audit, the auditor issues a report. The report is the medium of communication of the auditor's expert views on the financial statements and it has a significant bearing on the credibility of such statements. By expressing views in the report, the auditor takes upon himself a great responsibility because a large number of people are likely to put reliance on the financial statements. Therefore, he is necessarily to be careful, clear and objective in the matter of preparation of the report. The report should also be as simple as the circumstances permit.

It is necessary to emphasise that an auditor's report is directly linked with the task entrusted to him. Accordingly, he is to report within the terms of his appointment as agreed upon by him and the client. In case of statutory appointments, often the duties to be performed by the auditor and matters to be reported upon are specified by the concerned legislation. In case of a non-statutory appointment, it is the agreement, written or otherwise, between the auditor and the client that determines the scope of the auditor's work and consequently, the scope of the report. The auditor in his interest should endeavour to get the terms of appointment reduced in writing so that possibilities of ambiguities or different interpretations of the terms can be eliminated. This is imperative to avoid disputes on the contents of the report.

The auditor's task is basically verificatory in nature: that is why auditing is called an "attest" function. He is to verify the books of account and the resulting statements and state his findings in the report. Naturally, the report will have a fact paragraph and an opinion paragraph, besides other matters considered necessary by the auditor. It must be appreciated that what is sought from an auditor is his informed opinion about the credibility of the financial statements which summarise the year's transactions. An opinion can be formed by a process of examination. Verification and evaluation are the steps that provide the very basis of the opinion to be expressed. Consequently, where an auditor finds that a reference to certain facts is necessary in the report in order to render his opinion meaningful, he should state such facts in the report. In this context, students may refer to sub-sections (2) and (3) of Section 227 of the Companies Act, 1956 which provide for, *inter alia*, a few factual statements to be made by the auditor. The facts should be stated as they are and any attempt to interpret them should be avoided and they should be distinguished from the opinion part of the report.

The report, to be self-contained, should also devote a part to the scope and limitations, if any, of the work done and the examination carried out in a broad manner. The scope of part is as important as the opinion part because the opinion is very much conditioned by the scope of the work and the examination carried out. If the scope of the work was limited by the client,

obviously the opinion will be subject to the limitations and is likely to be different from what it would have been if the auditor had the authority to check and verify whatever he considered necessary. The misunderstanding about the scope of the work and the nature of the work to be performed in the past, provided grounds for much litigation and, therefore, it is necessary that a reference is made in the audit report itself about the scope and nature of the work performed. This has another positive aspect if the scope and nature are spelt out in the report, the readers of the report will be in a position to assess the implications of the opinion more clearly, and can be expected to exercise their judgement on how far to act on the basis of the opinion expressed. For example, if in a report on the accounts of a partnership firm it is stated that the stock records were not subject to audit, then naturally the opinion ultimately expressed cannot be taken to be the opinion based on a complete audit including the audit of the stock records. The recitation of the scope of the audit has the advantage of limiting and defining the responsibility assumed by the auditor.

8.1.1 Significance of the nature of audit examination: The nature of the audit examination carried out also has a very great bearing on the value of the audit opinion. SAs issued by the AASB constitute auditing standards within which framework the auditor carries out his responsibility. However, under the requirement contained in Section 227 of the Companies Act, 1956, the auditor in our country is required to state certain facts like whether he has obtained all the information and explanations considered necessary by him and whether the balance sheet and the profit and loss account are in agreement with the books of account. The requirement simultaneously serves the purpose of indicating to a limited extent, the nature of examination carried out. In the audit report of partnerships and sole traders, often we come across reports stating that the audit has been carried out by reference to the "books of account and the vouchers produced" This is a very significant statement highlighting the nature of audit carried out; it will suggest proper evidence collection and arithmetic agreement. How significant is the disclosure of nature of examination carried out can be appreciated from the famous case of *Deputy Secretary to the Govt. of India, Ministry of Finance v. S.N. Das Gupta.* In this case, apparently to disown responsibility, the auditor indicated that he had not carried out certain procedures. This ultimately resulted in his being charged with professional misconduct and being found guilty. The statement in the report that he had not carried out certain procedures suggested the nature of examination actually carried out by him and that established the meaninglessness of the opinion.

8.1.2 Significance of obtaining information and explanation from the management: Section 227 (3) of the Companies Act, 1956 casts a duty on the auditor to state whether the information and explanations considered necessary by him for the purpose of his audit has been obtained. This is a significant requirement in as much as recognition is accorded to the process of obtaining information as part of the whole auditing process. The auditors cannot be expected to know all the technicalities and the complexities of the business deals; also the relevant papers and documents to explain the transactions may not be really available to the auditor and, even if they are available they may still need to be explained so that one can clearly understand the impact of the transactions on the accounts. The management of the company, which actually enters into transactions on behalf of the company is expected to have thoroughly understood the implications of all material transactions, and therefore

auditors have been given the right to ask for information and explanations from the management. In this connection, students should refer to the provision of Section 221 of the Companies Act, 1956 in which the officers of the company have been made responsible to provide information to the auditor on matters pertaining to the payments, in particular. It has to state that his opinion on true and fair character of the balance sheet and the profit and loss account is based on the information received. Therefore, if any vital information is deliberately withheld from the auditor in the ordinary course of audit, and he had no means to know the existence of such information, in case the accounts turn to be wrong for that reason, the auditor should not be held guilty or negligent. If, however, the auditor has means to know of the existence of such vital information but he ignored it, he would be held guilty on that account.

The information and explanations made available to the auditor by the management should be relied upon when the auditor is satisfied that they are *prima facie* reliable, having regard to the circumstances. Where some basic documentary evidence is available, the auditor should insist on its production before him. He, however, should not reject the information and explanations as fabricated unless he has noticed something suspicious about them. The auditor should also see whether the information and explanations made available to him have come from the company's records or they have been specially formulated. If they have been specially formulated the auditor should exercise a little more care to examine them for any apparent unreasonableness or inconsistency. However, no information and explanations should be accepted as reliable without subjecting that a scrutiny, based on available evidence and common sense.

Apart from the scope, fact and opinion parts of an audit report, it would not be uncommon to find a part devoted to recommendations. If an auditor feels that certain improvements in the accounting control or in the records are called for, it is very much within his rights to make in the report or in a separate report suggestions for improvements. In fact, the auditor's report is greatly valued on account of objectivity, the overall view that an auditor is able to take of the business and his intimate knowledge of the internal organisations. Students may recall that an auditor may write "letter of weaknesses" to communicate weaknesses in the internal control system to the management.

8.1.3 Nature of Auditor's Opinion: About the opinion which is the central focus of an auditor's report, the auditor has to be highly discreet in using words and phrases. He should also make it obvious by prefixing the expression "in my opinion" to the opinion part of the report. Thereby he will be able to draw a line between facts and opinion. If the auditor is satisfied that the statements of account under report correctly summarise the year's transactions and are truthfully and fairly presented, he will issue an opinion that will lend credibility to the financial statements. On the other hand, if the auditor is not satisfied about the proper presentation of facts in the accounting statements or is of the opinion that inappropriate classification, aggregation, etc. have been used or important information has been withheld, he cannot issue an unqualified opinion. He may qualify or express reservation about the truth and fairness of the accounting statement either on an overall basis or as to the aspects specified in the report. This will put the readers of his report on guard and the auditor will remain protected to the extent he has qualified, from allegation of professional misconduct

or negligence against him. In the course of audit, he takes care to see whether the financial statements are prepared and presented in accordance with the principles of accounting; also he checks whether consistency in accordance with the principles has been maintained. In case he finds the accounting principles are not being followed properly and consistently, he qualifies the report. It is also a presumption in our country that the accounting statements contain relevant informative disclosures unless an exception is made. Clauses (5), (6), (8), and (9) of Part I, Second Schedule to the Chartered Accountants Act, 1949 have a direct bearing on the reports of the chartered accountants in India. A chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he:

1. fails to disclose a material fact known to him which is not disclosed in financial statement but disclosure of which is necessary to make the financial statement not misleading;
2. fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity;
3. fails to obtain sufficient information to warrant the expression of an opinion or his exceptions are sufficiently material to negate the expression of an opinion; and
4. fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.

An act of a chartered accountant in practice in India falling under the aforesaid clauses, can result in his being held to have committed a professional misconduct. The very fact that these acts are not considered as desirable professional practices has its own effect of indirectly setting standards of reporting for the chartered accountants in India.

8.2 The Auditor's Report on Financial Statements

The purpose of this SA 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 a n entity. The standard replies that auditor's report should contain a clear written expression of opinion on the financial statements taken as a whole. With a view to express an opinion, the auditor should review and assess the conclusion drawn from the audit evidence obtained. The 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. In the following paragraph the requirements as laid down in SA 700 are elaborated.

8.2.1 Basic Elements of the Auditor's Report: As per SA 700 "Forming an opinion and reporting on financial statements", the auditor's report includes the following basic elements, ordinarily, in the following layout:

1. Title : The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor.

2. Addressee : The auditor's report shall be addressed as required by the circumstances of the engagement.

3. Introductory Paragraph : The introductory paragraph in the auditor's report shall:

(a) Identify the entity whose financial statements have been audited;

(b) State that the financial statements have been audited;

(c) Identify the title of each statement that comprises the financial statements;

(d) Refer to the summary of significant accounting policies and other explanatory information; and

(e) Specify the date or period covered by each financial statement comprising the financial statements.

4. Management's Responsibility for the Financial Statements :

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

(b) The auditor's report shall include a section with the heading "Management's [or other appropriate term] Responsibility for the Financial Statements".

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

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

5. Auditor's Responsibility : The auditor's report shall include a section with the heading "Auditor's Responsibility".

The auditor's report shall state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit.

The auditor's report shall state that the audit was conducted in accordance with

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

Standards on Auditing issued by the Institute of Chartered Accountants of India. The auditor's report shall also explain that those Standards require that the auditor comply with ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The auditor's report shall describe an audit by stating that:

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

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

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

Where the financial statements are prepared in accordance with a fair presentation framework, the description of the audit in the auditor's report shall refer to "the entity's preparation and fair presentation of the financial statements" or "the entity's preparation of financial statements that give a true and fair view", as appropriate in the circumstances.

The auditor's report shall state whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

6. Auditor's Opinion:The auditor's report shall include a section with the heading "Opinion".

[I] When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:

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

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

[II] When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework].

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

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

If the auditor's report contains a separate section on other reporting responsibilities, the headings, statements and explanations shall be under the sub-title "Report on the Financial Statements." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Financial Statements."

8. Signature of the Auditor: The auditor's report shall be signed.

9. Date of the Auditor's Report : The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that:

(a) All the statements that comprise the financial statements, including the related notes, have been prepared; and

(b) Those with the recognised authority have asserted that they have taken responsibility for those financial statements.

10. Place of Signature : The auditor's report shall name specific location, which is ordinarily the city where the audit report is signed.

Auditor's Report Prescribed by Law or Regulation

If the auditor is required by any law or regulation to use a specific layout or wording of the auditor's report, the auditor's report shall refer to Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements:

(a) A title;

(b) An addressee, as required by the circumstances of the engagement;

(c) An introductory paragraph that identifies the financial statements audited;

(d) A description of the responsibility of management (or other appropriate term,) for the preparation of the financial statements;

(e) A description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit, that includes:

- *A reference to Standards on Auditing and the law or regulation; and*
- *A description of an audit in accordance with those Standards;*

(f) An opinion paragraph containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the jurisdiction of origin of the financial reporting framework);

(g) The auditor's signature;

(h) The date of the auditor's report; and

(i) The place of signature.

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

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

SA 705 deals with the auditor's responsibility to issue an appropriate 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. The succinct requirements of this SA 705 are given below:

Types of Modified Opinions: This SA establishes three types of modified opinions, namely:

(i) a qualified opinion,

(ii) an adverse opinion, and

(iii) 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.

Objective: The objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that is necessary when:

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

(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.

Circumstances When a Modification to the Auditor's Opinion Is Required:

The auditor shall modify the opinion in 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

(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.

Determining the Type of Modification to the Auditor's Opinion:

Qualified Opinion: The auditor shall express a qualified opinion when:

(a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or

(b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Adverse Opinion: The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Disclaimer of Opinion: The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed:

Limitation after the Auditor Has Accepted the Engagement: If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified

opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation.

If management refuses to remove the limitation referred to in above paragraph, the auditor shall communicate the matter to those charged with governance and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:

(a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or

(b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:

   (i) Resign from the audit, where practicable and not prohibited by law or regulation; or

   (ii) If resignation from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements.

If the auditor resigns as contemplated above), before resigning, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.

Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion: When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, the auditor's report shall not also include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement. To include such an unmodified opinion in the same report4 in these circumstances would contradict the auditor's adverse opinion or disclaimer of opinion on the financial statements as a whole.

Form and Content of the Auditor's Report When the Opinion Is Modified:

Basis for Modification Paragraph: When the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by the SA 700 (Revised), include a paragraph in the auditor's report that provides a description of the matter giving rise to the modification. The auditor shall place this paragraph immediately before the opinion paragraph in the auditor's report and use the heading "Basis for Qualified Opinion", "Basis for Adverse Opinion", or "Basis for Disclaimer of Opinion", as appropriate.

If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures), the auditor shall include in the basis for modification paragraph a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor shall so state in the basis for modification paragraph.

If there is a material misstatement of the financial statements that relates to narrative disclosures, the auditor shall include in the basis for modification paragraph an explanation of

how the disclosures are misstated.

If there is a material misstatement of the financial statements that relates to the non-disclosure of information required to be disclosed, the auditor shall:

(a) Discuss the non-disclosure with those charged with governance;

(b) Describe in the basis for modification paragraph the nature of the omitted information; and

(c) Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information.

If the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor shall include in the basis for modification paragraph, the reasons for that inability.

Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the auditor shall describe in the basis for modification paragraph the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof.

Opinion Paragraph: When the auditor modifies the audit opinion, the auditor shall use the heading "Qualified Opinion", "Adverse Opinion", or "Disclaimer of Opinion", as appropriate, for the opinion paragraph.

When the auditor expresses a qualified opinion due to a material misstatement in the financial statements, the auditor shall state in the opinion paragraph that, in the auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion paragraph:

(a) The financial statements present fairly, in all material respects (or give a true and fair view) in accordance with the applicable financial reporting framework when reporting in accordance with a fair presentation framework; or

(b) The financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework when reporting in accordance with a compliance framework.

When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor shall use the corresponding phrase "except for the possible effects of the matter(s)..." for the modified opinion.

When the auditor expresses an adverse opinion, the auditor shall state in the opinion paragraph that, in the auditor's opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion paragraph:

(a) The financial statements do not present fairly (or give a true and fair view) in accordance with the applicable financial reporting framework when reporting in accordance with a fair presentation framework; or

(b) The financial statements have not been prepared, in all material respects, in accordance with the applicable financial reporting framework when reporting in accordance with a compliance framework.

When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall state in the opinion paragraph that:

(a) because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion paragraph, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion; and,

(b) accordingly, the auditor does not express an opinion on the financial statements.

Description of Auditor's Responsibility When the Auditor Expresses a Qualified or Adverse Opinion: When the auditor expresses a qualified or adverse opinion, the auditor shall amend the description of the auditor's responsibility to state that the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's modified audit opinion.

Description of Auditor's Responsibility When the Auditor Disclaims an Opinion: When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the introductory paragraph of the auditor's report to state that the auditor was engaged to audit the financial statements. The auditor shall also amend the description of the auditor's responsibility and the description of the scope of the audit to state only the following: "Our responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with Standards on Auditing issued by the Institute of Chartered Accountants of India. Because of the matter(s) described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion".

SA 706 on the other hand 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.

If the auditor considers it necessary to draw users' attention to a matter 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, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements. Such a paragraph shall refer only to information presented or disclosed in the financial statements. Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are:

- An uncertainty relating to the future outcome of an exceptional litigation or regulatory action.
- Early application (where permitted) of a new accounting standard that has a pervasive effect on the financial statements in advance of its effective date.

- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion. An Emphasis of Matter paragraph is not a substitute for either:

(a) The auditor expressing a qualified opinion or an adverse opinion, or disclaiming an opinion, when required by the circumstances of a specific audit engagement (see SA 705); or

(b) Disclosures in the financial statements that the applicable financial reporting framework requires management to make.

When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:

(a) Include it immediately after the Opinion paragraph in the auditor's report;

(b) Use the heading "Emphasis of Matter", or other appropriate heading;

(c) Include in the paragraph a clear reference to the matter being emphasised and to where relevant disclosures that fully describe the matter can be found in the financial statements; and

(d) Indicate that the auditor's opinion is not modified in respect of the matter emphasised.

Date of Report - 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. 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 - The report should name specific location, which is ordinarily the city where the audit report is signed.

Auditor's Signature - 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 Firm Registration Number (w.e.f. April 1, 2010) and the membership number assigned by the Institute of Chartered Accountants of India.

8.2.2 The Auditor's Report: 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.

8.2.3 Modified Report (refer SA 705 and SA 706 as discussed above for detailed principles)*:* An auditor's report is considered to be modified (as per erstwhile SA 700 on "The Auditor's Report on Financial Statements") 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 SA 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: 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.

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.

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.

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 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 ……. –

An illustration of an emphasis of matter paragraph relating to going concern is set out in SA 570, "Going Concern."

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: 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.

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.

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.

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.

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.

8.2.4 Circumstances That May Result in Other Than an Unqualified Opinion Limitation on Scope: 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.

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.

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.

Disagreement with Management: 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.

Illustrations of these matters are set out below:

Disagreement on Accounting Policies-Inappropriate Accounting Method—Qualified Opinion

> *"We have audited …….. (introductory paragraph).*
>
> *We conducted our audit in accordance with ……. [(scope paragraph, i.e, Description of Auditor's responsibility as per SA 700 (Revised)].*

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 ₹ ..... This short provisioning for depreciation has resulted into the profit for the year, fixed assets and reserves and surplus being overstated by ₹ …….

8.2.5 Signature on Audit Report: The report is to be signed by the maker of the report. Normally, a chartered accountant in practice signs the report in the name he is registered as a practitioner. If he is an individual, it may be his individual name or the firm name of which he is the sole proprietor. For those who practise as a partnership, it is usual for them to sign in the firm name. Under Section 229 of the Companies Act, 1956 only the person appointed as auditor of the company or, where a firm is so appointed, only a partner in the firm practising in India, may sign

the auditor's report or sign or authenticate any other document of the company required by law to be signed or authenticated by the auditor.

It is obvious that the person appointed makes the report; otherwise the very essence of the appointment of a particular man or firm will be lost. In a profession, the particular skill and reputation of the practitioner counts considerably and if anybody else is allowed to make the report on behalf of the person appointed, then this confidence in the person will cease to be a factor. This has other implications also from the point of view of professional responsibility; it will create an unusual legal situation. It has also implications from the standpoint of the practitioner. If in respect of appointments held by him, the reports are made by others, gradually the goodwill of the practitioner will end and the clients may shift to the person actually making the report.

In the case of practice as a partnership firm, any of the partners can sign the report. This is also recognised by the aforesaid Section 229. However, the Department of Company Affairs, Government of India, is of the view that there cannot be a firm name in case of sole practitioners. On a closer scrutiny, it would be clear that the view of the Government is not well- founded. In case of chartered accountants practising in partnership, the department is of the view that putting the signature in the firm name is not contemplated by Section 229, even though the name has been signed by a partner. The concerned partner should invariably sign his own name in his own hand for and on behalf of the firm appointed to audit a company's accounts. Students may recall that the long standing practice was to sign in the firm name. For example, if A, B and C were in practice as ABC & Co. Chartered Accountants, any of A or B or C could sign as "ABC & Co." in his own hand. But now in view of the objection raised by the Department of Company Affairs to this practice, the Council of the Institute in the SA 700. "The Auditor's Report on Financial Statements" has recommended to the members who are in practice in partnership that signature on or authentication of the auditor's report or any other document required to be signed or authenticated by the auditor should be made in the following manner.

For ABC and Co.

Chartered Accountants

Firm Registration Number

Signature

(Name of the Member Signing the Audit Report)

(Designation)[1]

In addition to the provision of the Companies Act, 1956 referred to above, Clause (13) of Part I of the First Schedule to the Chartered Accountants Act, 1949 provides that a chartered accountant in practice shall be deemed to be guilty of professional misconduct if he allows a person, not being a member of the Institute or a member not being his partner, to sign on his behalf or on behalf of his firm, any balance sheet, profit & loss account, report or financial statements. The provision is intended to safeguard the professional purity by excluding non--

[1] Partner or Proprietor, as the case may be.

chartered accountants from signing the aforesaid documents. By excluding chartered accountants who are not partners, it seeks to keep the line of professional responsibility clear. Partners are mutual agents and therefore, allowing a partner to sign does not interfere with the clarity of responsibility.

8.2.6 Audit Report under the Companies Act, 1956: The auditors of a company are required to report to its members in terms of Section 227 of the Companies Act, 1956. The matters which the auditors have to report could be classified into two categories.

(i) statement of fact; and (ii) opinions.

The auditors reporting requirements are contained in sub-sections 1(A), (2), (3), (4), and (4A). It may be recalled that sub-sections (1A) and (4A) were introduced in 1965. The former requires the auditor to "inquire into" specific matters stated in the sub-section and pursuant to the authority contained in the latter the Manufacturing and other Companies (Auditor's Report) order was issued in 1975. The 1975 Order was superseded by the order issued in 1988 which is also superceded now by Companies (Auditor's Report) Order, 2003. When we analyse sub-sections (2) and (3) of Section 227, we find that the auditor has to make statements of fact in his report on the following:

(i) Whether he has obtained all the information and explanation which to the best of his knowledge and belief were necessary for the purposes of his audit.

(ii) Whether the report on the accounts of any branch office audited under Section 228 by a person other than the company's auditor has been forwarded to him as required by Section 228 (3) (c) and how he has dealt with the same in preparing the auditor's reports.

(iii) Whether the company's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account and the returns.

(iv) whether any director is disqualified from being appointed as director under clause (g) of sub-section (1) of section 274.

(v) Whether the cess payable under section 441A has been paid and if not, the details of amount of cess not so paid.

The opinions which the auditor is required to express are:

(i) Whether proper books of account as required by law have been kept by the company so far as it appears from the examination of the books and proper returns adequate for the purposes of the audit have been received from branches not visited by him;

(ii) Whether the accounts give the information required by the Act in the manner so required;

(iii) Whether in his opinion, the profit and loss account and balance sheet complied with the accounting standards referred to in sub-section (3C) of Section 211.

(iv) Whether the accounts give a true and fair view, in the case of balance sheet, of the state of the company's state of affairs, and in the case of the profit and loss account, of the profit or loss for the year.

It may be noted that as per section 227(3)(e), the auditor's report shall state in thick type or italics, these observations or comments of the auditors which have any adverse effect on the functioning of the company.

However, it should not be understood that a distinct statement of a fact makes it unnecessary to consider the same for the purpose of opinion formation. In effect, the facts, apart from their own significance which probably account for their, distinct disclosure, are complementary to the opinion. On the face of adverse facts, no favourable opinion can be given. It should be appreciated that only certain very important and basic facts about the accounts are required to be stated under the provisions of sub-sections (2) and (3). The statement of facts by the auditor is a very significant pointer to the credibility of the accounts. If the auditor states that he has not been able to obtain all the information and explanations considered necessary by him, the reliability of the accounting information under the report would be seriously impaired. Sub-section (4) provides for reasons to be given in the auditor's report, if any of the matters required to be stated pursuant to sub-sections (2) and (3) are subject to qualification or negative statement or denial of opinion.

A. Report under Section 227 (1A) of the Companies Act, 1956: Section 227(1A) requires the auditor to make certain specific enquiries during the course of his audit. This requirement is without prejudice to his general rights, powers and duties regarding access to books etc. and obtaining information and explanations, He is however not required to report on the matters specified in this sub-section, unless he has any special comments to make on any of the items referred to therein. If he is satisfied as a result of the enquiries, he has no further duty to report that he is so satisfied. It should however be noted that the auditor is required to make only enquiries on the matters specified in the sub-section and is not to investigate into the matters referred to therein. Clause (a) requires the auditor to inquire:

> *"Whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are not prejudicial to the interests of the company or its members."*

This clause applies to loans and advances made by the company during the financial year under audit, whether they are outstanding on the date of the Balance Sheet or not. The inquiry should be made in the light of conditions prevailing when the loan or advance was made. Loans and advances have not been defined anywhere in the Act. However, having regard to the requirement of clause (d) of the sub-section, a distinction is obviously intended to be made between "loans and advances" and "deposits". A "deposit" may be defined as the placing of money or money's worth with a third party, either for safe keeping, or by way of security for the performance of the depositor's obligations, or for the purpose of earning interest; in the last case deposit being with a party who customarily accepts deposits. Any item required to be disclosed under the head "Loans and Advances" in Part I of the Revised Schedule VI to the Act which do not fall within the above definition of a "deposit" should be construed for the purpose of this clause as "loans and advances".

The clause applies to all loans and advances made "on the basis of the security'. "Security" for this purpose would include any movable or immovable property, whether belonging to the borrower or not, of which either physical possession or over which a legally effective charge is given to lender.

The loan agreement or correspondence in regard to the terms of the loan or advance should be seen. Where the loan or advance is made to a company, any charge on the assets of such

a company should have been registered under Section 125 of the Act in order to constitute an effective security. The "terms" on which the loan or advance is made would primarily include the security, the interest charged and the terms of repayment. It would be difficult to lay down any general principles regarding the rate of interest which may be charged on loans and advances. Various considerations, such as the position and standing of the borrower, type of security, purpose of the loan, prevailing market rate of interest, etc., would have to be taken into account. If the loan has been given for business considerations, e.g., loans to staff for purchase of cars, houses, etc., loans to suppliers of raw materials or other goods, there may be justification for interest being charged at a rate lower than the market rate, or even, in appropriate circumstances, no interest being charged at all. However, when a loan is given only with a view to earning interest, the interest charged would be at the commercial rate.

Particular attention should be paid to loans or advances to concerns in which the directors of the company or their associates are interested. The question whether the terms on which a loan or advance has been made are "prejudicial to the interests of the company or its members" is a difficult one. Obviously, the auditor is not to inquire as to how such transactions of the company affect the interests of individual members in their personal capacities. The reference to "members" should therefore be construed as a reference to the members of a company as a class, in their capacity as members. The members of the company would be primarily interested in a reasonable return on their investment and in the safety of their capital. The question whether a loan is prejudicial to the interests of the members should therefore be considered from this angle.

If loan or advance has been approved by the members of the company and/or the Government as required by Section 370 of the Act (now 372A), this would be a *prima facie* evidence to show that it is not prejudicial to the interests of the company or its members.

Under Clause (b) the auditor has to inquire:

> *"Whether transactions of the company which are represented merely by book entries are not prejudicial to the interests of the company."*

The transactions of a company are ordinarily matters of fact. The purpose of book entries is to correctly record transactions which have, in fact, taken place. If a book entry is passed which is not in accordance with the facts of the transaction, or is contrary thereto, this should be set right or reported upon by the auditor. Again, if book entries are passed purporting to record "transactions" which have, in fact, not taken place, similar considerations would apply. The clause is therefore intended to cover transactions of the company for which the only evidence, or the principal evidence, is the entry regarding the transactions in the books of account. In such cases, the auditor should inquire whether such transactions have in fact taken place and, if so, whether they are prejudicial to the interests of the company.

Under Clause (c) the auditor has to inquire:

> *"Where the company is not an investment company within the meaning of Section 372 or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company".*

This clause requires the auditor to inquire in all cases where shares, debentures or other securities have been sold at a price less than their cost. If, as a result of his inquiries, the auditor is satisfied that the sale is bonafide and the price realised is reasonable, having regard to the circumstances of the case, he has no further duty to report on the matter.

Under Clause (d) the auditor has to inquire:

> *'"Whether loans and advances made by the company have been shown as deposits".*

A reference is invited to the definition of a "deposit" in contradistinction to that of a loan or advance given in the comments on clause (a) above. It should be noted that the inquiry to be made is whether loans and advances have been shown as deposits, and not vice versa.

Clause (e) requires the auditor to inquire:

> *"Whether personal expenses have been charged to revenue account."*

The practice of meeting certain types of personal expenses of employees is normal and is recognized both by the Income tax Authorities and the Company Law Board. Illustration of such expenses are the provision of rent-free quarters, conveyance for personal use, medical expenses, expenses on leave travel, maternity benefits, canteen facilities, etc. The charging to revenue of such personal expenses, either on the basis of the company's contractual obligations, or in accordance with accepted business practice, is perfectly normal and legitimate and does not call for any special comment by the auditor. Where, however, personal expenses not covered by contractual obligations or by accepted business practice are incurred by the company and charged to revenue account, it would be the duty of the auditor to report thereon.

Clause (f) requires the auditor to inquire:

> *"Where it is stated in the books and papers of the company that any shares have been allotted for cash, whether cash has actually been so received in respect of such allotment, and if no cash has actually been so received. Whether the position as stated in the account books and the balance sheet is correct, regular and not misleading."*

B. Report under the Companies (Auditor's) Report Order, 2003.: Under Section 227(4A) of the Companies Act, the Central Government has the power to direct by a general or special order that in the case of specified companies the auditor's report shall include a statement on such matters as may be specified in its order. The Central government may before making any such order, if it finds necessary or expedient to do so, consult the Institute of Chartered Accountants of India. In accordance with these provisions, the Central Government had issued the Companies (Auditor's Report) Order, 2003 dated June 12, 2003 which has now been amended by way of Companies (auditor's Report) (Amendment) order, 2004.

The provisions of the order are supplemented to the existing provisions of the Companies Act, 1956 regarding the auditors report as contained in Section 227, Certain points of distinction may, however, be noted. Firstly the provision of sub-sections (2), (3) and (4) of Section 227 are applicable to all companies while the Order is not applicable to the classes of companies

specified in the Order. Secondly, the provisions of sub-section (1A) only require an auditor to enquire into the matters specified in the sub-section and as such he will report only if the comment is necessary in the light of enquiry, whereas, the Order requires a statement on each of the matters specified thereunder. The provision of this order is in addition to the directions given by the Comptroller & Auditor General under Section 619 of the Companies Act, 1956.

8.3 Distinction between Audit Report and Certificate

The term 'report' is used where an expression of opinion is involved. The term 'certificate' is preferable where the auditor comments on or verifies facts such as a verification of investment by inspection or the checking of ballot papers on a poll in a company meeting. Under the Companies Act, 1956, a number of situations are there where an auditor is required to issue a certificate rather than a report. Section 165 (4) of the Companies Act, 1956, requires the auditor to certify certain matters that are included in the Statutory Report. Under clause 24 (1) (b) of the Part II, Schedule II to the Companies Act, 1956, an auditor is required to certify the statements of the accounts for that part of the five years ending on a date within 6 months preceding the date of the prospectus. However, the report under Section 227 of the Companies Act, 1956, is an opinion based report and is not a certificate.

Some situations where Audit Reports and Certificates are required is given below -

(1) Under the Payment of Bonus Act, 1965 a chartered accountant may be required to issue a 'report' on the computation of bonus payable. The report may be as under:

"We have reviewed the figures in the above computation in comparison with the books and records..... produced to us, the audit of which has already been completed by us and report that subject to the notes given on face of the computation in our opinion, and to the best of our knowledge and belief and according to the information and explanation given to us, the above computation is in due accordance therewith and has been made on a basis reasonably consistent with the provisions of the Payment of Bonus Act, 1965."

Place: For X & Co.

Date: Chartered Accountants

(2) Auditor's Report in accordance with Regulation 54 of the SEBI (Mutual Fund) Regulations, 1993.

(i) All Mutual funds shall be required to get their accounts audited in terms of a provision to that effect in their trust deeds. The Auditor's Report shall form a part of the Annual Report. It should accompany the Abridged Balance Sheet and Revenue Account. The auditor shall report to the Board of Trustees and not to the unit holders.

(ii) The auditor shall state whether:

1. He has obtained all information and explanations which, to the best of his knowledge and belief, were necessary for the purpose of his audit.
2. The Balance Sheet and the Revenue Account are in agreement with the books of account of the fund.

(iii) The auditor shall give his opinion as to whether:

1. The Balance Sheet gives a true and fair view of the scheme wise state of affairs' of the fund as at the balance sheet date, and
2. The Revenue Account gives a true and fair view of the scheme wise surplus/deficit of the fund for the year/period ended at the balance sheet date.

(3) Certificate from a Chartered Accountant towards Application for grant of *Export/Trading Star Trading House Certificate* vide Appendix 19 of the Handbook of Procedures (Export and Import Policy) 1997-2002.

Certificate of Chartered Accountant / Cost Accountant / Company Secretary

I/we hereby confirm that I/We have examined the prescribed registers and also the relevant records of _____ for the period from _____ to _____ for the period / year ending _____ and hereby certify that:

(i) M/s._____(full name and address of the applicant) have realised the sale proceeds in net foreign exchange for the exports made for each of the three financial years/during the preceding financial year as specified in the statement of exports as at Sl. No.15.

(ii) The following documents/records have been furnished by the applicant and have been examined and verified by me/us namely:

Export order/Contract, Shipping Bills, Bill of lading (and/or Airways Bills/PP Receipts), Customs/Bank attested Invoices, Bank Certificates showing realisation of sale proceeds, evidence of payments received in foreign exchange in their own name and connected books of account.

(iii) The Net foreign Exchange Earnings have been calculated by deducting the following from the f.o.b. value:

(a) The CIF value of all goods (other than capital goods) imported by the applicant in his own name or through his associate or supporting manufacturer(s) which have been used in manufacture of the goods exported; and

(b) The value of all payments made in foreign exchange by way of commission, royalty, fees or any other charge for the exports made.

(iv) The relevant register has been authenticated under my/our seal/signature.

(v) The FOB value of products manufactured by SSI/Cottage/Handicraft sector units and net realisation of foreign exchange thereof as shown in the statement of exports/Net realisation of foreign exchange is correct.

(vi) The financial information given in the above statement is in agreement with the relevant register and records; the same has been incorporated in the books of accounts maintained by the exporter; and is also true and correct.

(vii) It has been ensured that the information furnished, is true and correct in all respects no part of it is false or misleading and no relevant information has been concealed or withheld;

(viii) Neither I, nor any of my partners is a partner, director, or an employee of the above-named entity or its associated concerns;

(ix) I/We hereby certify that M/s..... has realised 95% or more of the export proceeds in respect of exports made by him in the preceding three licensing years on the basis of which the recognition is claimed.

(x) I/We hereby certify the total value of outstanding export proceeds beyond a period of six months from the date of export made by the applicant.

(xi) I/We fully understand that any statement made in this certificate, if proved incorrect or false, will render me/us liable for any penal or other consequences as may be prescribed in law or otherwise warranted.

(Signature and Stamp/Seal of the Signatory)
(Chartered Accountant/Cost Accountant/Company Secretary)

Name of the Signatory:	Place :
Full Address:	Membership No.:
	Date :

8.4 Audit Reports and Certificates for Special Purposes

In this first part, the relevant extracts from the Guidance Note on Audit Reports and Certificates for Special Purposes are given below (Also refer SA 800, SA 805 and SA 810):

Government authorities may, under various statutes or notifications, require reports or certificates from auditors in support of statements or other information prepared by an enterprise. Reports or certificates on specific matters may also be required from auditors by an enterprise, for its own special purposes. These reports or certificates to specific requirements of the individual users is unlike a 'general purposes report' e.g. an auditor's report on financial statements which is intended for general use. An audit report or certificate for special purposes is one to which the format of general purpose audit report is not applicable.

8.4.1 Scope of Special Purpose Audit Reports and Certificates: Audit reports or certificates for special purposes may be issued in connection with:

(a) financial statements which are prepared in addition to general purpose financial statements:

(b) specified elements, accounts or items of financial statements;

(c) compliance with requirements of any agreement or statute or regulation;

(d) financial information given in special purpose formats or schedules; or

(e) compilation of statistics or ascertainment of basic figures e.g., for the purposes of fixed quotas or levies.

8.4.2 Responsibility for Preparation of Special Purpose Statements*:* The primary responsibility for the contents of special purpose statement rests with the enterprise and this would be evidenced by a suitable declaration or authentication by the management on the face of the statement.

8.4.3 Scope of Reporting Auditor's Function: A reporting auditor should have a clear understanding of the scope and nature of the terms of his assignment. It is desirable for him to obtain the terms in writing to avoid any misunderstanding. A reporting auditor is not an expert on purely technical matters and as such, when he is required to report on or certify such matters (e.g., composition or quality of a product) which are of paramount importance and constitute the very basis of the figures contained in the statement, he should state his limitations clearly in the report or certificate. At the same time he should indicate the extent to which he has been able to exercise his own professional skill and judgement with regard to the matters being reported upon. For instance, he may state that, for the purposes of forming his opinion he has relied upon a certificate from technical experts. He should, of course, satisfy himself about the technical qualifications of the expert, and subject the expert's certificate to a reasonable review.

8.4.4 Contents of Reports and Certificates for Special Purposes: In many cases, a reporting auditor can choose the form and contents of his report or certificate. In other cases the form and contents of the report or certificate are specified by statute or notification and cannot be changed. Where a reporting auditor is free to draft his report or certificate, he should consider the following:

(a) Specific elements, accounts or items covered by the report or certificate should be clearly identified and indicated.

(b) The report or certificate should indicate the manner in which the audit was conducted, e.g., by the application of generally accepted auditing practices, or any other specific tests.

(c) If the report or certificate is subject to any limitations in scope, such limitations should be clearly mentioned.

(d) Assumptions on which the special purpose statement is based should be clearly indicated if they are fundamental to the appreciation of the statement.

(e) Reference to the information and explanations obtained should be included in the report or certificate. In certain cases, apart from a general reference to information and explanations obtained, a reporting auditor may also find it necessary to refer in his report or certificate to specific information or explanations on which he has relied.

(f) The title of the report or certificate should clearly indicate its nature, i.e., whether it is a report or a certificate. Similarly, the language should be unambiguous, i.e., it should clearly bring out whether the reporting auditor is expressing an opinion (as in the case of a report) or whether he is only confirming the accuracy of certain facts (as in the case of a certificate). For this, the choice of appropriate words and phrases is important.

(g) If the special purposes statement is based on general purpose financial statements, the report or certificate should contain a reference to such statements. However, the report or

certificate should not contain a reference to any other statement unless the same is attached herewith. It should be clearly indicated whether or not the statutory audit of the general purposes financial statements has been completed and also, whether such audit has been conducted by the reporting auditor or by another auditor. In case the general purposes financial statements have been audited by another auditor, the reporting auditor should specify the extent to which he has relied on them. He may communicate with the statutory auditor for securing his co-operation and in appropriate circumstances, discuss relevant matters with him, if possible.

(h) Where a report requires the interpretation of statute, the reporting auditor should clearly indicate the fact that he is merely expressing his opinion in the matter. He should take sufficient care to ensure that in respect of matters which are capable of more than one interpretation, his report is not misconstrued as representing a settled legal position;

(i) An audit report or certificate should ordinarily be a self- contained document. It should not confine itself to a mere reference to another report or certificate issued by the reporting auditor but should include all relevant information contained in such report or certificate.

(j) The reporting auditor should clearly indicate in his report or certificate, the extent of responsibility which he assumes. Where the statement on which he is required to give his report or certificate, includes some information which has not been audited, he should clearly indicate in his report or certificate the particulars of such information.

In certain cases, the form and/or contents of the report or certificate, as prescribed by a statute or a notification, may not be appropriate or adequate. In such situations, the reporting auditor may consider modifying the report or certificate on the basis of the suggestion made in above para to the extent applicable. In case this is not possible, he should clearly indicate the limitations in his report or certificate itself.

8.4.5 Extent of Reliance on General Purpose Audit Report: Where a special purpose engagement is undertaken after the statutory audit has been completed, a reporting auditor should invariably review the statutory audit report to ascertain whether there are any matters which have a bearing on his report or certificate. In cases, where a reporting auditor is required to report or certify certain specific matter arising from the financial statements taken as a whole, he should not normally issue his report or certificate until the statutory audit has been completed. For instance, a reporting auditor may be required to state whether, in the case of an Indian branch of a foreign company, the profit shown in the accounts represents the remittable surplus of the branch, or he may be asked to report on the computation of 'gross profit' for the purpose of bonus under the Payment of Bonus Act, 1965. In such cases, it would normally not be proper for him to give his report or certificate until the statutory audit has been completed, since he would not really be in a position to state whether the profit shown in the accounts itself has been properly computed.

Where an audit report or certificate is required before the statutory audit is computed, a reporting auditor should state clearly in his audit report or certificate that he is reporting on or certifying specific matters arising out of the financial statements of the enterprise, the statutory audit of which has not been completed. Where the reporting auditor prepares his report or

certificate on the basis of duly audited general purpose financial statements he may take the following precautions:

(i) He may clearly state in his report or certificate that the figures from the audited general purpose financial statements have been used and relied upon.

(ii) He may include in his report or certificate a statement showing the reconciliation between the figures in the general purpose financial statements and the figures appearing in his report or certificate.

8.4.6 Reports and Certificates on Specified Accounts or Items of Financial Statements: The test of materiality which a reporting auditor uses in connection with special purpose reports may be different, depending upon the circumstances, from the test he would use in connection with a general purpose report. For example, where he is required to express an opinion on specified accounts or items of financial statements, he may judge the materiality of an item solely in relation to such individual accounts or items rather than to the aggregate thereof or to the financial statements as a whole. A reporting auditor's examination of certain records for an audit report or certificate for special purpose may also be more intensive than the examination of the same records by the statutory auditor for the purpose of expressing an opinion on the general purpose financial statements as a whole. Certain accounts or items of financial statements are inter - related, e.g., sales and debtors, purchases and creditors, fixed assets and depreciation, etc. Therefore, where the reporting auditor is required to examine and report upon or certify a specified account or items of financial statement, he may also need to examine the related accounts or items to discover the inconsistencies, if any, between these inter - related accounts or items.

8.4.7 Communication of Report or Certificate: The reporting auditor may address his report or certificate to the client or to the public authority or person requiring it, as the case may be. In appropriate circumstances, a certificate may be issued without reference to any particular person or authority by using the words. 'To whomsoever it may concern'. The report or certificate should normally be issued to the client who should be responsible for forwarding the same to the connected authority, where so required.

8.4.8 Communication with the Previous Reporting Auditor: It should be a healthy tradition if the practice of communicating with the member who had done the work previously is followed in every case where a member is required to give a report or certificate for a special purpose.

8.5 Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks (SA 800)

Introduction

Scope: The Standards on Auditing (SAs) in the 100-700 series apply to an audit of financial statements. This SA deals with special considerations in the application of those SAs to an audit of financial statements prepared in accordance with a special purpose framework.

This SA is written in the context of a complete set of financial statements prepared in

accordance with a special purpose framework. SA 805, deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement.

This SA does not override the requirements of the other SAs; nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

Objective: The objective of the auditor, when applying SAs in an audit of financial statements prepared in accordance with a special purpose framework, is to address appropriately the special considerations that are relevant to:

(a) The acceptance of the engagement;

(b) The planning and performance of that engagement; and

(c) Forming an opinion and reporting on the financial statements.

Definitions:

(a) Special purpose financial statements – Financial statements prepared in accordance with a special purpose framework.

(b) Special purpose framework – A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework. Examples of special purpose frameworks are:

- The cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors;
- The financial reporting provisions established by a regulator to meet the requirements of that regulator; or
- The financial reporting provisions of a contract, such as a bond indenture, a loan agreement, or a project grant.

There may be circumstances where a special purpose framework is based on a financial reporting framework established by an authorised or recognised standards setting organization or by law or regulation, but does not comply with all the requirements of that framework. An example is a contract that requires financial statements to be prepared in accordance with most, but not all, of the Financial Reporting Standards of Jurisdiction X. When this is acceptable in the circumstances of the engagement, it is inappropriate for the description of the applicable financial reporting framework in the special purpose financial statements to imply full compliance with the financial reporting framework established by the authorised or recognized standards setting organization or by law or regulation. In the above example of the contract, the financial reporting provisions of the contract, rather than make any reference to the Financial Reporting Standards of Jurisdiction X.

In the circumstances described above, the special purpose framework may not be a fair presentation framework even if the financial reporting framework on which it is based is a fair presentation framework. This is because the special purpose framework may not comply with all the requirements of the financial reporting framework established by the authorized or

recognized standards setting organization or by law or regulation that are necessary to achieve fair presentation of the financial statements.

Financial statements prepared in accordance with a special purpose framework may be the only financial statements an entity prepares. In such circumstances, those financial statements may be used by users other than those for whom the financial reporting framework is designed. Despite the broad distribution of the financial statements in those circumstances, the financial statements are still considered to be special purpose financial statements for purposes of the SAs. The requirements above are designed to avoid misunderstandings about the purpose for which the financial statements are prepared.

Requirements:

Considerations When Accepting the Engagement:

SA 210 (Revised) requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements4. In an audit of special purpose financial statements, the auditor shall obtain an understanding of:

(a) The purpose for which the financial statements are prepared;

(b) The intended users; and

(c) The steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances.

Considerations When Planning and Performing the Audit: SA 200 (Revised) requires the auditor to comply with all SAs relevant to the audit. In planning and performing an audit of special purpose financial statements, the auditor shall determine whether application of the SAs requires special consideration in the circumstances of the engagement.

SA 315 requires the auditor to obtain an understanding of the entity's selection and application of accounting policies. In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall obtain an understanding of any significant interpretations of the contract that management made in the preparation of those financial statements. An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the information presented in the financial statements.

Forming an Opinion and Reporting Considerations: When forming an opinion and reporting on special purpose financial statements, the auditor shall apply the requirements in SA 700 (Revised).

Description of the Applicable Financial Reporting Framework: SA 700 (Revised) requires the auditor to evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework8. In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall evaluate whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based.

SA 700 (Revised) deals with the form and content of the auditor's report. In the case of an auditor's report on special purpose financial statements:

(a) The auditor's report shall also describe the purpose for which the financial statements are prepared and, if necessary, the intended users, or refer to a note in the special purpose financial statements that contains that information; and

(b) If management has a choice of financial reporting frameworks in the preparation of such financial statements, the explanation of management's responsibility for the financial statements shall also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.

Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework: The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. The auditor shall include this paragraph under an appropriate heading.

8.6 Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of A Financial Statement (SA 805)

Introduction

Scope: The Standards on Auditing (SAs) in the 100-700 series apply to an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. This SA deals with special considerations in the application of those SAs to an audit of a single financial statement or of a specific element, account or item of a financial statement. The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with a general or special purpose framework. If prepared in accordance with a special purpose framework, SA 800 also applies to the audit.

This SA does not apply to the report of a component auditor, issued as a result of work performed on the financial information of a component at the request of a group engagement team for purposes of an audit of group financial statements.

This SA does not override the requirements of the other SAs; nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

Objective: The objective of the auditor, when applying SAs in an audit of a single financial statement or of a specific element, account or item of a financial statement, is to address appropriately the special considerations that are relevant to:

(a) The acceptance of the engagement;

(b) The planning and performance of that engagement; and

(c) Forming an opinion and reporting on the single financial statement or on the specific element, account or item of a financial statement.

Definitions:

(a) *"Element of a financial statement" or "element"* means an "element, account or item of a financial statement";

Examples of Specific Elements, Accounts or Items of a Financial Statement:

- Accounts receivable, allowance for doubtful accounts receivable, inventory, the liability for accrued benefits of a private pension plan, the recorded value of identified intangible assets, or the liability for "incurred but not reported" claims in an insurance portfolio, including related notes.
- A schedule of externally managed assets and income of a private pension plan, including related notes.
- A schedule of net tangible assets, including related notes.
- A schedule of disbursements in relation to a lease property, including explanatory notes.
- A schedule of profit participation or employee bonuses, including explanatory notes.

(b) *"Financial Reporting Standards"* means the Accounting Standards promulgated by the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) or Accounting Standards, notified by the Central Government by publishing the same as the Companies (Accounting Standards) Rules, 2006, or the Accounting Standards for Local Bodies promulgated by the Committee on Accounting Standards for Local Bodies (CASLB) of the Institute of Chartered Accountants of India, as may be applicable; and

(c) *A single financial statement* (for example, a cash flow statement) or to a specific element of a financial statement (for example, cash and bank balances) includes the related notes. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information relevant to the financial statement or to the element.

Requirements:

Considerations When Accepting the Engagement Application of SAs: SA 200 (Revised) requires the auditor to comply with all SAs relevant to the audit. In the case of an audit of a single financial statement or of a specific element of a financial statement, this requirement applies irrespective of whether the auditor is also engaged to audit the entity's complete set of financial statements. If the auditor is not also engaged to audit the entity's complete set of financial statements, the auditor shall determine whether the audit of a single financial statement or of a specific element of those financial statements in accordance with SAs is practicable.

Acceptability of the Financial Reporting Framework: SA 210 (Revised) requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements. In the case of an audit of a single financial statement or of a specific element of a financial statement, this shall include whether application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the

element, and the effect of material transactions and events on the information conveyed in the financial statement or the element.

Form of Opinion: SA 210 (Revised) requires that the agreed terms of the audit engagement include the expected form of any reports to be issued by the auditor. In the case of an audit of a single financial statement or of a specific element of a financial statement, the auditor shall consider whether the expected form of opinion is appropriate in the circumstances.

Considerations When Planning and Performing the Audit: SA 200 (Revised) states that SAs are written in the context of an audit of financial statements; they are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. In planning and performing the audit of a single financial statement or of a specific element of a financial statement, the auditor shall adapt all SAs relevant to the audit as necessary in the circumstances of the engagement.

Forming an Opinion and Reporting Considerations: 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.

Reporting on the Entity's Complete Set of Financial Statements and on a Single Financial Statement or on a Specific Element of Those Financial Statements: If the auditor undertakes an engagement to report on a single financial statement or on a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor shall express a separate opinion for each engagement.

An audited single financial statement or an audited specific element of a financial statement may be published together with the entity's audited complete set of financial statements. If the auditor concludes that the presentation of the single financial statement or of the specific element of a financial statement does not differentiate it sufficiently from the complete set of financial statements, the auditor shall ask management to rectify the situation.

The auditor shall also differentiate the opinion on the single financial statement or on the specific element of a financial statement from the opinion on the complete set of financial statements. The auditor shall not issue the auditor's report containing the opinion on the single financial statement or on the specific element of a financial statement until satisfied with the differentiation.

Modified Opinion, Emphasis of Matter Paragraph or Other Matter Paragraph in the Auditor's Report on the Entity's Complete Set of Financial Statements: If the opinion in the auditor's report on an entity's complete set of financial statements is modified, or that report includes an Emphasis of Matter paragraph or an Other Matter paragraph, the auditor shall determine the effect that this may have on the auditor's report on a single financial statement or on a specific element of those financial statements.

When deemed appropriate, the auditor shall modify the opinion on the single financial statement or on the specific element of a financial statement, or include an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor's report, accordingly.

If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole, SA 705 does not permit the auditor to include in the same auditor's report an unmodified opinion on a single financial statement that forms part of those financial statements or on a specific element that forms part of those financial statements. This is because such an unmodified opinion would contradict the adverse opinion or disclaimer of opinion on the entity's complete set of financial statements as a whole.

If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole but, in the context of a separate audit of a specific element that is included in those financial statements, the auditor nevertheless considers it appropriate to express an unmodified opinion on that element, the auditor shall only do so if:

(a) The auditor is not prohibited by law or regulation from doing so;

(b) That opinion is expressed in an auditor's report that is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion; and

(c) The specific element does not constitute a major portion of the entity's complete set of financial statements.

The auditor shall not express an unmodified opinion on a single financial statement of a complete set of financial statements if the auditor has expressed an adverse opinion or disclaimed an opinion on the complete set of financial statements as a whole. This is the case even if the auditor's report on the single financial statement is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion. This is because a single financial statement is deemed to constitute a major portion of those financial statements.

8.7 Engagements to Report on Summary Financial Statements (SA 810)

Introduction

Scope: This Standard on Auditing (SA) deals with the auditor's responsibilities when undertaking an engagement to report on summary financial statements derived from financial statements audited in accordance with SAs by that same auditor.

Objectives: The objectives of the auditor are to:

(a) Determine whether it is appropriate to accept the engagement to report on summary financial statements;

(b) Form an opinion on the summary financial statements based on an evaluation of the conclusions drawn from the evidence obtained; and

(c) Express clearly that opinion through a written report that also describes the basis for that opinion.

Definitions:

(a) Applied criteria – The criteria applied by management in the preparation of the summary financial statements.

(b) Audited financial statements – Financial statements audited by the auditor in accordance with SAs, and from which the summary financial statements are derived.

(c) Summary financial statements – Historical financial information that is derived from financial statements but that contains less detail than the financial statements, while still providing a structured representation consistent with that provided by the financial statements of the entity's economic resources or obligations at a point in time or the changes therein for a period of time. Different jurisdictions may use different terminology to describe such historical financial information.

Requirements:

Engagement Acceptance: The auditor shall, ordinarily, accept an engagement to report on summary financial statements in accordance with this SA only when the auditor has been engaged to conduct an audit in accordance with SAs of the financial statements from which the summary financial statements are derived.

Before accepting an engagement to report on summary financial statements, the auditor shall:

(a) Determine whether the applied criteria are acceptable;

(b) Obtain the agreement of management that it acknowledges and understands its responsibility:

   i. For the preparation of the summary financial statements in accordance with the applied criteria;

   ii. To make the audited financial statements available to the intended users of the summary financial statements without undue difficulty (or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements, to describe that law or regulation in the summary financial statements); and

   iii. To include the auditor's report on the summary financial statements in any document that contains the summary financial statements and that indicates that the auditor has reported on them.

(c) Agree with management the form of opinion to be expressed on the summary financial statements.

If the auditor concludes that the applied criteria are unacceptable or is unable to obtain the agreement of management, the auditor shall not accept the engagement to report on the summary financial statements, unless required by law or regulation to do so. An engagement conducted in accordance with such law or regulation does not comply with this SA. Accordingly, the auditor's report on the summary financial statements shall not indicate that the engagement was conducted in accordance with this SA. The auditor shall include appropriate reference to this fact in the terms of the engagement. The auditor shall also

determine the effect that this may have on the engagement to audit the financial statements from which the summary financial statements are derived.

Nature of Procedures: The auditor shall perform the following procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements:

(a) Evaluate whether the summary financial statements adequately disclose their summarised nature and identify the audited financial statements.

(b) When summary financial statements are not accompanied by the audited financial statements, evaluate whether they describe clearly:

  (i) From whom or where the audited financial statements are available; or

  (ii) The law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements.

(c) Evaluate whether the summary financial statements adequately disclose the applied criteria.

(d) Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be re-calculated from the related information in the audited financial statements.

(e) Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.

(f) Evaluate, in view of the purpose of the summary financial statements, whether the summary financial statements contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.

(g) Evaluate whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements.

Form of Opinion: When the auditor has concluded that an unmodified opinion on the summary financial statements is appropriate, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases:

(a) The summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with [the applied criteria]; or

(b) The summary financial statements are a fair summary of the audited financial statements, in accordance with [the applied criteria].

If law or regulation prescribes the wording of the opinion on summary financial statements in terms that are different from those described above, the auditor shall:

(a) Apply the procedures described in paragraph 8 and any further procedures necessary to enable the auditor to express the prescribed opinion; and

(b) Evaluate whether users of the summary financial statements might misunderstand the auditor's opinion on the summary financial statements and, if so, whether additional explanation in the auditor's report on the summary financial statements can mitigate possible misunderstanding.

If, the auditor concludes that additional explanation in the auditor's report on the summary financial statements cannot mitigate possible misunderstanding, the auditor shall not accept the engagement, unless required by law or regulation to do so. An engagement conducted in accordance with such law or regulation does not comply with this SA.

Accordingly, the auditor's report on the summary financial statements shall not indicate that the engagement was conducted in accordance with this SA.

Timing of Work and Events Subsequent to the Date of the Auditor's Report on the Audited Financial Statements: The auditor's report on the summary financial statements may be dated later than the date of the auditor's report on the audited financial statements. In such cases, the auditor's report on the summary financial statements shall state that the summary financial statements and audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements that may require adjustment of, or disclosure in, the audited financial statements.

The auditor may become aware of facts that existed at the date of the auditor's report on the audited financial statements, but of which the auditor previously was unaware. In such cases, the auditor shall not issue the auditor's report on the summary financial statements until the auditor's consideration of such facts in relation to the audited financial statements in accordance with SA 560 (Revised) has been completed.

Auditor's Report on Summary Financial Statements Elements of the Auditor's Report: The auditor's report on summary financial statements shall include the following elements:

(a) A title clearly indicating it as the report of an independent auditor.

(b) An addressee.

(c) An introductory paragraph that:

  (i) Identifies the summary financial statements on which the auditor is reporting, including the title of each statement included in the summary financial statements;

  (ii) Identifies the audited financial statements;

  (iii) Refers to the auditor's report on the audited financial statements, the date of that report, and, the fact that an unmodified opinion is expressed on the audited financial statements;

  (iv) If the date of the auditor's report on the summary financial statements is later than the date of the auditor's report on the audited financial statements, states that the summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements; and

  (v) A statement indicating that the summary financial statements do not contain all the disclosures required by the financial reporting framework applied in the preparation of

the audited financial statements, and that reading the summary financial statements is not a substitute for reading the audited financial statements.

(d) A description of management's responsibility for the summary financial statements, explaining that management is responsible for the preparation of the summary financial statements in accordance with the applied criteria.

(e) A statement that the auditor is responsible for expressing an opinion on the summary financial statements based on the procedures required by this SA.

(f) A paragraph clearly expressing an opinion.

(g) The auditor's signature along with the firm registration number, wherever applicable7, and the membership number assigned by the Institute of Chartered Accountants of India (ICAI).

(h) The date of the auditor's report.

(i) The place of signature.

If the addressee of the summary financial statements is not the same as the addressee of the auditor's report on the audited financial statements, the auditor shall evaluate the appropriateness of using a different addressee.

The auditor shall date the auditor's report on the summary financial statements no earlier than:

(a) The date on which the auditor has obtained sufficient appropriate evidence on which to base the opinion, including evidence that the summary financial statements have been prepared and those with the recognised authority have asserted that they have taken responsibility for them; and

(b) The date of the auditor's report on the audited financial statements.

Modifications to the Opinion, Emphasis of Matter Paragraph or Other Matter Paragraph in the Auditor's Report on the Audited Financial Statements: When the auditor's report on the audited financial statements contains a qualified opinion, an Emphasis of Matter paragraph, or an Other Matter paragraph, but the auditor is satisfied that the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria, the auditor's report on the summary financial statements shall, in addition to the elements specified above:

(a) State that the auditor's report on the audited financial statements contains a qualified opinion, an Emphasis of Matter paragraph, or an Other Matter paragraph; and

(b) Describe:

  (i) The basis for the qualified opinion on the audited financial statements, and that qualified opinion; or the Emphasis of Matter or the Other Matter paragraph in the auditor's report on the audited financial statements; and

  (ii) The effect thereof on the summary financial statements, if any.

When the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor's report on the summary financial statements shall, in addition to the elements specified above:

(a) State that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer of opinion;

(b) Describe the basis for that adverse opinion or disclaimer of opinion; and

(c) State that, as a result of the adverse opinion or disclaimer of opinion, it is inappropriate to express an opinion on the summary financial statements.

Modified Opinion on the Summary Financial Statements: If the summary financial statements are not consistent, in all material respects, with or are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor shall express an adverse opinion on the summary financial statements.

Restriction on Distribution or Use or Alerting Readers to the Basis of Accounting: When distribution or use of the auditor's report on the audited financial statements is restricted, or the auditor's report on the audited financial statements alerts readers that the audited financial statements are prepared in accordance with a special purpose framework, the auditor shall include a similar restriction or alert in the auditor's report on the summary financial statements.

Comparatives: If the audited financial statements contain comparatives, but the summary financial statements do not, the auditor shall determine whether such omission is reasonable in the circumstances of the engagement. The auditor shall determine the effect of an unreasonable omission on the auditor's report on the summary financial statements.

If the summary financial statements contain comparatives that were reported on by another auditor, the auditor's report on the summary financial statements shall also contain the matters that SA 710 (Revised) requires the auditor to include in the auditor's report on the audited financial statements.

Unaudited Supplementary Information Presented with Summary Financial Statements: The auditor shall evaluate whether any unaudited supplementary information presented with the summary financial statements is clearly differentiated from the summary financial statements. If the auditor concludes that the entity's presentation of the unaudited supplementary information is not clearly differentiated from the summary financial statements, the auditor shall ask management to change the presentation of the unaudited supplementary information. If management refuses to do so, the auditor shall explain in the auditor's report on the summary financial statements that such information is not covered by that report.

Other Information in Documents Containing Summary Financial Statements: The auditor shall read other information included in a document containing the summary financial statements and related auditor's report to identify material inconsistencies, if any, with the summary financial statements. If, on reading the other information, the auditor identifies a material inconsistency, the auditor shall determine whether the summary financial statements or the other information needs to be revised. If, on reading the other information, the auditor becomes aware of an apparent material misstatement of fact, the auditor shall discuss the matter with management.

Auditor Association: If the auditor becomes aware that the entity plans to state that the auditor has reported on summary financial statements in a document containing the summary

financial statements, but does not plan to include the related auditor's report, the auditor shall request management to include the auditor's report in the document. If management does not do so, the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately associating the auditor with the summary financial statements in that document.

The auditor may be engaged to report on the financial statements of an entity, while not engaged to report on the summary financial statements. If, in this case, the auditor becomes aware that the entity plans to make a statement in a document that refers to the auditor and the fact that summary financial statements are derived from the financial statements audited by the auditor, the auditor shall be satisfied that:

(a) The reference to the auditor is made in the context of the auditor's report on the audited financial statements; and

(b) The statement does not give the impression that the auditor has reported on the summary financial statements.

If (a) or (b) are not met, the auditor shall request management to change the statement to meet them, or not to refer to the auditor in the document. Alternatively, the entity may engage the auditor to report on the summary financial statements and include the related auditor's report in the document. If management does not change the statement, delete the reference to the auditor, or include an auditor's report on the summary financial statements in the document containing the summary financial statements, the auditor shall advise management that the auditor disagrees with the reference to the auditor, and the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately referring to the auditor.

Factors that may affect the auditor's determination of the acceptability of the applied criteria include:

- The nature of the entity;
- The purpose of the summary financial statements;
- The information needs of the intended users of the summary financial statements; and
- Whether the applied criteria will result in summary financial statements that are not misleading in the circumstances.

Where established criteria for the preparation of summary financial statements do not exist, criteria may be developed by management, for example, based on practice in a particular industry. Criteria that are acceptable in the circumstances will result in summary financial statements that:

(a) Adequately disclose their summarised nature and identify the audited financial statements;

(b) Clearly describe from whom or where the audited financial statements are available or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements, that law or regulation;

(c) Adequately disclose the applied criteria;

(d) Agree with or can be re-calculated from the related information in the audited financial statements; and

(e) In view of the purpose of the summary financial statements, contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.

8.8 Review of Interim Financial Information Performed by The Independent Auditor of The Entity (SRE 2410)

Introduction

The purpose of this Standard on Review Engagements (SRE) is to establish standards and provide guidance on the auditor's professional responsibilities when the auditor undertakes an engagement to review interim financial information of an audit client, and on the form and content of the report.

The term "auditor" is used throughout this SRE, not because the auditor is performing an audit function but because the scope of this SRE is limited to a review of interim financial information performed by the independent auditor of the financial statements of the entity.

For purposes of this SRE, interim financial information is financial information that is prepared and presented in accordance with an applicable financial reporting framework and comprises either a complete or a condensed set of financial statements for a period that is shorter than the entity's financial year.

The auditor who is engaged to perform a review of interim financial information should perform the review in accordance with this SRE. Through performing the audit of the annual financial statements, the auditor obtains an understanding of the entity and its environment, including its internal control. When the auditor is engaged to review the interim financial information, this understanding is updated through inquiries made in the course of the review, and assists the auditor in focusing the inquiries to be made and the analytical and other review procedures to be applied. A practitioner who is engaged to perform a review of interim financial information, and who is not the auditor of the entity, performs the review in accordance with SRE 2400 (Revised), "Engagements to Review Financial Statements." As the practitioner does not ordinarily have the same understanding of the entity and its environment, including its internal control, as the auditor of the entity, the practitioner needs to carry out different inquiries and procedures to meet the objective of the review.

This SRE is directed towards a review of interim financial information by an entity's auditor. However, it is to be applied, adapted as necessary in the circumstances, when an entity's auditor undertakes an engagement to review historical financial information other than interim financial information of an audit client.

General Principles of a Review of Interim Financial Information: The auditor should comply with the ethical requirements relevant to the audit of the annual financial statements of the entity. These ethical requirements govern the auditor's professional responsibilities in the

following areas: independence, integrity, objectivity, professional competence and due care, confidentiality, professional behavior, and technical standards.

The auditor should implement quality control procedures that are applicable to the individual engagement. The elements of quality control that are relevant to an individual engagement include leadership responsibilities for quality on the engagement, ethical requirements, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams, engagement performance, and monitoring.

The auditor should plan and perform the review with an attitude of professional skepticism, recognizing that circumstances may exist that cause the interim financial information to require a material adjustment for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. An attitude of professional skepticism means that the auditor makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by management of the entity.

Objective of an Engagement to Review Interim Financial Information: The objective of an engagement to review interim financial information is to enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with an applicable financial reporting framework.

The auditor makes inquiries, and performs analytical and other review procedures in order to reduce to a moderate level the risk of expressing an inappropriate conclusion when the interim financial information is materially misstated.

The objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with Standards on Auditing (SAs). A review of interim financial information does not provide a basis for expressing an opinion whether the financial information gives a true and fair view, or is presented fairly, in all material respects, in accordance with an applicable financial reporting framework.

A review, in contrast to an audit, is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may bring significant matters affecting the interim financial information to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

Agreeing the Terms of the Engagement: The auditor and the client should agree on the terms of the engagement. The agreed terms of the engagement are ordinarily recorded in an engagement letter. Such a communication helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, management's responsibilities, the extent of the auditor's responsibilities, the assurance obtained, and the nature and form of the report. The communication ordinarily covers the following matters:

The objective of a review of interim financial information.

The scope of the review.

Management's responsibility for the interim financial information.

Management's responsibility for establishing and maintaining effective internal control relevant to the preparation of interim financial information.

Management's responsibility for making all financial records and related information available to the auditor

Management's agreement to provide written representations to the auditor to confirm representations made orally during the review, as well as representations that are implicit in the entity's records.

The anticipated form and content of the report to be issued, including the identity of the addressee of the report.

Management's agreement that where any document containing interim financial information indicates that the interim financial information has been reviewed by the entity's auditor, the review report will also be included in the document.

Procedures for a Review of Interim Financial Information:

Understanding the Entity and its Environment, Including its Internal Control: The auditor should have an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both annual and interim financial information, sufficient to plan and conduct the engagement so as to be able to:

(a) Identify the types of potential material misstatement and consider the likelihood of their occurrence; and

(b) Select the inquiries, analytical and other review procedures that will provide the auditor with a basis for reporting whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.

As required by SA 315, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment," the auditor who has audited the entity's financial statements for one or more annual periods has obtained an understanding of the entity and its environment, including its internal control, as it relates to the preparation of annual financial information that was sufficient to conduct the audit. In planning a review of interim financial information, the auditor updates this understanding. The auditor also obtains a sufficient understanding of internal control as it relates to the preparation of interim financial information as it may differ from internal control as it relates to annual financial information.

The auditor uses the understanding of the entity and its environment, including its internal control, to determine the inquiries to be made and the analytical and other review procedures to be applied, and to identify the particular events, transactions or assertions to which inquiries may be directed or analytical or other review procedures applied.

The procedures performed by the auditor to update the understanding of the entity and its environment, including its internal control, ordinarily include the following:

- Reading the documentation, to the extent necessary, of the preceding year's audit and reviews of prior interim period(s) of the current year and corresponding interim period(s) of the prior year, to enable the auditor to identify matters that may affect the current-period interim financial information.
- Considering any significant risks, including the risk of management override of controls, that were identified in the audit of the prior year's financial statements.
- Reading the most recent annual and comparable prior period interim financial information.
- Considering materiality with reference to the applicable financial reporting framework as it relates to interim financial information to assist in determining the nature and extent of the procedures to be performed and evaluating the effect of misstatements.
- Considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's financial statements.
- Considering significant financial accounting and reporting matters that may be of continuing significance such as material weaknesses in internal control.
- Considering the results of any audit procedures performed with respect to the current year's financial statements.
- Considering the results of any internal audit performed and the subsequent actions taken by management.
- Inquiring of management about the results of management's assessment of the risk that the interim financial information may be materially misstated as a result of fraud.
- Inquiring of management about the effect of changes in the entity's business activities.
- Inquiring of management about any significant changes in internal control and the potential effect of any such changes on the preparation of interim financial information.
- Inquiring of management of the process by which the interim financial information has been prepared and the reliability of the underlying accounting records to which the interim financial information is agreed or reconciled.

In order to plan and conduct a review of interim financial information, a recently appointed auditor, who has not yet performed an audit of the annual financial statements in accordance with SAs, should obtain an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both annual and interim financial information.

Inquiries, Analytical and Other Review Procedures: The auditor should make inquiries, primarily of persons responsible for financial and accounting matters, and perform analytical and other review procedures to enable the auditor to conclude whether, on the basis of the procedures performed, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.

A review ordinarily does not require tests of the accounting records through inspection, observation or confirmation. Procedures for performing a review of interim financial

information are ordinarily limited to making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures, rather than corroborating information obtained concerning significant accounting matters relating to the interim financial information. The auditor's understanding of the entity and its environment, including its internal control, the results of the risk assessments relating to the preceding audit and the auditor's consideration of materiality as it relates to the interim financial information, affects the nature and extent of the inquiries made, and analytical and other review procedures applied.

The auditor ordinarily performs the following procedures:

- Reading the minutes of the meetings of shareholders, those charged with governance, and other appropriate committees to identify matters that may affect the interim financial information, and inquiring about matters dealt with at meetings for which minutes are not available that may affect the interim financial information.
- Considering the effect, if any, of matters giving rise to a modification of the audit or review report, accounting adjustments or unadjusted misstatements, at the time of the previous audit or reviews.
- Communicating, where appropriate, with other auditors who are performing a review of the interim financial information of the reporting entity's significant components.
- Inquiring of members of management responsible for financial and accounting matters, and others as appropriate about the following:
  - (a) Whether the interim financial information has been prepared and presented in accordance with the applicable financial reporting framework.
  - (b) Whether there have been any changes in accounting principles or in the methods of applying them.
  - (c) Whether any new transactions have necessitated the application of a new accounting principle.
  - (d) Whether the interim financial information contains any known uncorrected misstatements.
  - (e) Unusual or complex situations that may have affected the interim financial information, such as a business combination or disposal of a segment of the business.
  - (f) Significant assumptions that are relevant to the fair value measurement or disclosures and management's intention and ability to carry out specific courses of action on behalf of the entity.
  - (g) Whether related party transactions have been appropriately accounted for and disclosed in the interim financial information.
  - (h) Significant changes in commitments and contractual obligations.
  - (i) Significant changes in contingent liabilities including litigation or claims.
  - (j) Compliance with debt covenants.
  - (k) Matters about which questions have arisen in the course of applying the review procedures.

(l) Significant transactions occurring in the last several days of the interim period or the first several days of the next interim period.

(m) Knowledge of any fraud or suspected fraud affecting the entity involving: Management; Employees who have significant roles in internal control; or Others where the fraud could have a material effect on the interim financial information.

(n) Knowledge of any allegations of fraud, or suspected fraud, affecting the entity's interim financial information communicated by employees, former employees, analysts, regulators, or others.

(o) Knowledge of any actual or possible noncompliance with laws and regulations that could have a material effect on the interim financial information.

A review of interim financial information ordinarily does not require corroborating the inquiries about litigation or claims. It is, therefore, ordinarily not necessary to send an inquiry letter to the entity's lawyer. Direct communication with the entity's lawyer with respect to litigation or claims may, however, be appropriate if a matter comes to the auditor's attention that causes the auditor to question whether the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework, and the auditor believes the entity's lawyer may have pertinent information.

The auditor should obtain evidence that the interim financial information agrees or reconciles with the underlying accounting records. The auditor may obtain evidence that the interim financial information agrees or reconciles with the underlying accounting records by tracing the interim financial information to:

(a) The accounting records, such as the general ledger, or a consolidating schedule that agrees or reconciles with the accounting records; and

(b) Other supporting data in the entity's records as necessary.

The auditor should inquire whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the interim financial information. It is not necessary for the auditor to perform other procedures to identify events occurring after the date of the review report.

The auditor should inquire whether management has changed its assessment of the entity's ability to continue as a going concern. When, as a result of this inquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor should:

(a) Inquire of management as to its plans for future actions based on its going concern assessment, the feasibility of these plans, and whether management believes that the outcome of these plans will improve the situation; and

(b) Consider the adequacy of the disclosure about such matters in the interim financial information.

When a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment should be made for the interim financial information to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor

should make additional inquiries or perform other procedures to enable the auditor to express a conclusion in the review report. For example, if the auditor's review procedures lead the auditor to question whether a significant sales transaction is recorded in accordance with the applicable financial reporting framework, the auditor performs additional procedures sufficient to resolve the auditor's questions, such as discussing the terms of the transaction with senior marketing and accounting personnel, or reading the sales contract.

Evaluation of Misstatements: The auditor should evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the auditor's attention are material to the interim financial information.

A review of interim financial information, in contrast to an audit engagement, is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement. However, misstatements which come to the auditor's attention, including inadequate disclosures, are evaluated individually and in the aggregate to determine whether a material adjustment is required to be made to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.

The auditor exercises professional judgment in evaluating the materiality of any misstatements that the entity has not corrected. The auditor considers matters such as the nature, cause and amount of the misstatements, whether the misstatements originated in the preceding year or interim period of the current year, and the potential effect of the misstatements on future interim or annual periods.

The auditor may designate an amount below which misstatements need not be aggregated, because the auditor expects that the aggregation of such amounts clearly would not have a material effect on the interim financial information. In so doing, the auditor considers the fact that the determination of materiality involves quantitative as well as qualitative considerations, and that misstatements of a relatively small amount could nevertheless have a material effect on the interim financial information.

Management Representations: The auditor should obtain written representation from management that:

(a) It acknowledges its responsibility for the design and implementation of internal control to prevent and detect fraud and error;

(b) The interim financial information is prepared and presented in accordance with the applicable financial reporting framework;

(c) It believes the effect of those uncorrected misstatements aggregated by the auditor during the review are immaterial, both individually and in the aggregate, to the interim financial information taken as a whole. A summary of such items is included in or attached to the written representations;

(d) It has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity;

(e) It has disclosed to the auditor the results of its assessment of the risks that the interim financial information may be materially misstated as a result of fraud;

(f) It has disclosed to the auditor all known actual or possible noncompliance with laws and regulations whose effects are to be considered when preparing the interim financial information; and

(g) It has disclosed to the auditor all significant events that have occurred subsequent to the balance sheet date and through to the date of the review report that may require adjustment to or disclosure in the interim financial information.

Auditor's Responsibility for Accompanying Information: The auditor should read the other information that accompanies the interim financial information to consider whether any such information is materially inconsistent with the interim financial information. If the auditor identifies a material inconsistency, the auditor considers whether the interim financial information or the other information needs to be amended. If an amendment is necessary in the interim financial information and management refuses to make the amendment, the auditor considers the implications for the review report.

If an amendment is necessary in the other information and management refuses to make the amendment, the auditor considers including in the review report an additional paragraph describing the material inconsistency, or taking other actions, such as withholding the issuance of the review report or withdrawing from the engagement. For example, management may present alternative measures of earnings that more positively portray results of operations than the interim financial information, and such alternative measures are given excessive prominence, are not clearly defined, or not clearly reconciled to the interim financial information such that they are confusing and potentially misleading.

If a matter comes to the auditor's attention that causes the auditor to believe that the other information appears to include a material misstatement of fact, the auditor should discuss the matter with the entity's management. While reading the other information for the purpose of identifying material inconsistencies, an apparent material misstatement of fact may come to the auditor's attention (i.e., information, not related to matters appearing in the interim financial information, that is incorrectly stated or presented). When discussing the matter with the entity's management, the auditor considers the validity of the other information and management's responses to the auditor's inquiries, whether valid differences of judgment or opinion exist and whether to request management to consult with a qualified third party to resolve the apparent misstatement of fact. If an amendment is necessary to correct a material misstatement of fact and management refuses to make the amendment, the auditor considers taking further action as appropriate, such as notifying those charged with governance and obtaining legal advice.

Communication: When, as a result of performing the review of interim financial information, a matter comes to the auditor's attention that causes the auditor to believe that it is necessary to make a material adjustment to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor should communicate this matter as soon as practicable to the appropriate level of management.

When, in the auditor's judgment, management does not respond appropriately within a reasonable period of time, the auditor should inform those charged with governance. The

communication is made as soon as practicable, either orally or in writing. The auditor's decision whether to communicate orally or in writing is affected by factors such as the nature, sensitivity and significance of the matter to be communicated and the timing of such communications. If the information is communicated orally, the auditor documents the communication.

When, in the auditor's judgment, those charged with governance do not respond appropriately within a reasonable period of time, the auditor should consider:

(a) Whether to modify the report; or

(b) The possibility of withdrawing from the engagement; and

(c) The possibility of resigning from the appointment to audit the annual financial statements.

When, as a result of performing the review of interim financial information, a matter comes to the auditor's attention that causes the auditor to believe in the existence of fraud or noncompliance by the entity with laws and regulations the auditor should communicate the matter as soon as practicable to the appropriate level of management. The determination of which level of management is the appropriate one is affected by the likelihood of collusion or the involvement of a member of management. The auditor also considers the need to report such matters to those charged with governance and considers the implication for the review.

The auditor should communicate relevant matters of governance interest arising from the review of interim financial information to those charged with governance. As a result of performing the review of the interim financial information, the auditor may become aware of matters that in the opinion of the auditor are both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process. The auditor communicates such matters to those charged with governance.

Reporting the Nature, Extent and Results of the Review of Interim Financial Information: The auditor should issue a written report that contains the following:

(a) An appropriate title.

(b) An addressee, as required by the circumstances of the engagement.

(c) Identification of the interim financial information reviewed, including identification of the title of each of the statements contained in the complete or condensed set of financial statements and the date and period covered by the interim financial information.

(d) If the interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a statement that management is responsible for the preparation and fair presentation of the interim financial information in accordance with the applicable financial reporting framework.

(e) In other circumstances, a statement that management is responsible for the preparation and presentation of the interim financial information in accordance with the applicable financial reporting framework.

(f) A statement that the auditor is responsible for expressing a conclusion on the interim financial information based on the review.

(g) A statement that the review of the interim financial information was conducted in accordance with Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity," and a statement that that such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

(h) A statement that a review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit and that accordingly no audit opinion is expressed.

(i) If the interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information does not give a true and fair view, or does not present fairly, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the relevant jurisdiction of the financial reporting framework when the financial reporting framework used is not Financial Reporting Standards4 applicable in India).

(j) In other circumstances, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the relevant jurisdiction of the financial reporting framework when the financial reporting framework used is not Financial Reporting Standards applicable in India).

(k) The date of the report.

(l) Place of Signature.

(m) The auditor's signature and membership number assigned by the Institute of Chartered Accountants of India (ICAI).

(n) The Firm's registration number of the member of the Institute, wherever applicable, as allotted by ICAI.

Departure from the Applicable Financial Reporting Framework: The auditor should express a qualified or adverse conclusion when a matter has come to the auditor's attention that causes the auditor to believe that a material adjustment should be made to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.

If matters have come to the auditor's attention that cause the auditor to believe that the interim financial information is or may be materially affected by a departure from the applicable financial reporting framework, and management does not correct the interim financial information, the auditor modifies the review report. The modification describes the nature of the departure and, if practicable, states the effects on the interim financial information. If the information that the auditor believes is necessary for adequate disclosure is not included in the interim financial information, the auditor modifies the review report and, if practicable, includes the necessary information in the review report. The modification to the review report is ordinarily accomplished by adding an

explanatory paragraph to the review report, and qualifying the conclusion.

Limitation on Scope: A limitation on scope ordinarily prevents the auditor from completing the review. When the auditor is unable to complete the review, the auditor should communicate, in writing, to the appropriate level of management and to those charged with governance the reason why the review cannot be completed, and consider whether it is appropriate to issue a report.

Limitation on Scope Imposed by Management: The auditor does not accept an engagement to review the interim financial information if the auditor's preliminary knowledge of the engagement circumstances indicates that the auditor would be unable to complete the review because there will be a limitation on the scope of the auditor's review imposed by management of the entity.

If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor requests the removal of that limitation. If management refuses to do so, the auditor is unable to complete the review and express a conclusion. In such cases, the auditor communicates, in writing, to the appropriate level of management and those charged with governance the reason why the review cannot be completed. Nevertheless, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the interim financial information is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.

The auditor also considers the legal and regulatory responsibilities, including whether there is a requirement for the auditor to issue a report. If there is such a requirement, the auditor disclaims a conclusion, and provides in the review report the reason why the review cannot be completed. However, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the interim financial information is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor also communicates such a matter in the report.

Other Limitations on Scope: A limitation on scope may occur due to circumstances other than a limitation on scope imposed by management. In such circumstances, the auditor is ordinarily unable to complete the review and express a conclusion thereon. There may be, however, some rare circumstances where the limitation on the scope of the auditor's work is clearly confined to one or more specific matters that, while material, are not in the auditor's judgment pervasive to the interim financial information. In such circumstances, the auditor modifies the review report by indicating that, except for the matter which is described in an explanatory paragraph to the review report, the review was conducted in accordance with this SRE, and by qualifying the conclusion.

The auditor may have expressed a qualified opinion on the audit of the latest annual financial statements because of a limitation on the scope of that audit. The auditor considers whether that limitation on scope still exists and, if so, the implications for the review report.

Going Concern and Significant Uncertainties: In certain circumstances, an emphasis of matter paragraph may be added to a review report, without affecting the auditor's conclusion, to highlight a matter that is included in a note to the interim financial information that more extensively discusses the matter. The paragraph would preferably be included after the conclusion paragraph and ordinarily refers to the fact that the conclusion is not qualified in this respect.

If adequate disclosure is made in the interim financial information, the auditor should add an

emphasis of matter paragraph to the review report to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern.

The auditor may have modified a prior audit or review report by adding an emphasis of matter paragraph to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern. If the material uncertainty still exists and adequate disclosure is made in the interim financial information, the auditor modifies the review report on the current interim financial information by adding a paragraph to highlight the continued material uncertainty.

If, as a result of inquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that may cast significant doubt on the entity's ability to continue as a going concern, and adequate disclosure is made in the interim financial information the auditor modifies the review report by adding an emphasis of matter paragraph.

If a material uncertainty that casts significant doubt about the entity's ability to continue as a going concern is not adequately disclosed in the interim financial information, the auditor should express a qualified or adverse conclusion, as appropriate. The report should include specific reference to the fact that there is such a material uncertainty.

The auditor should consider modifying the review report by adding a paragraph to highlight a significant uncertainty (other than a going concern problem) that came to the auditor's attention, the resolution of which is dependent upon future events and which may affect the interim financial information.

Other Considerations: The terms of the engagement include management's agreement that where any document containing interim financial information indicates that such information has been reviewed by the entity's auditor, the review report will also be included in the document. If management has not included the review report in the document, the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances.

If the auditor has issued a modified review report and management issues the interim financial information without including the modified review report in the document containing the interim financial information, the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances, and the possibility of resigning from the appointment to audit the annual financial statements.

Interim financial information consisting of a condensed set of financial statements does not necessarily include all the information that would be included in a complete set of financial statements, but may rather present an explanation of the events and changes that are significant to an understanding of the changes in the state of affairs and performance of the entity since the annual reporting date. This is because it is presumed that the users of the interim financial information will have access to the latest audited financial statements, such as is the case with listed entities. In other circumstances, the auditor discusses with management the need for such interim financial information to include a statement that it is to be read in conjunction with the latest audited financial statements. In the absence of such a statement, the auditor considers whether, without a reference to the latest audited financial statements, the interim financial information is

misleading in the circumstances, and the implications for the review report.

Documentation: The auditor should prepare review documentation that is sufficient and appropriate to provide a basis for the auditor's conclusion and to provide evidence that the review was performed in accordance with this SRE and applicable legal and regulatory requirements. The documentation enables an experienced auditor having no previous connection with the engagement to understand the nature, timing and extent of the inquiries made, and analytical and other review procedures applied, information obtained, and any significant matters considered during the performance of the review, including the disposition of such matters.

8.9 Audit of Company Prospectuses

Extracts from the Guidance Note on Audit of Company Prospectuses are given below (This Guidance Note may be studied in conjunction with SA 800, SA 805 and SA 810):

Section 2(36) of the Companies Act, 1956 defines 'Prospectus' as follows:

Prospectus means any document described or issued as a prospectus and includes any notice, circular, advertisement or other document inviting deposits from the public or inviting offers from the public for the subscription or purchase of any shares in, or debentures of a body corporate.

In order to enable the potential investors to take a well-informed decision in the matter, the Act spells out in some detail, the information to be given in a prospectus.

8.9.1 Who are eligible to make the reports: The report to be included in a prospectus under B(1) of Part II of Schedule II should be made by the auditors of the company. In case the company has joint auditors, the report should be made by all the joint auditors. The report under clauses B(4) and B(5) should be made by an accountant who shall be named in the prospectus. According to clause 21(a) of Part III of Schedule II, the accountant shall be a person qualified under the Act for appointment as auditor of a company. Clause 21(b) of Part III of Schedule II further states that the report shall not be made by any accountant who is an officer or a servant or a partner or in the employment of an officer or servant of the company or of the company's subsidiary or holding company or of a subsidiary of the company's holding company. It has been clarified that the expression "Officer" does not include an auditor. Thus, an auditor of a company is eligible to make a report under clauses B(4) and B(5) of Schedule II as well as under Clauses 1 and 2 of both Schedules III and IV. Schedules III and IV also contain identical provisions.

It is important to note that in terms of Section 226(3)(d), a chartered accountant who is indebted to a company for an amount exceeding one thousand rupees, or who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company for an amount exceeding one thousand rupees, is disqualified for appointment as its auditor. However there seems nothing to prohibit such person from acting as an "accountant" for the purpose of making a report under the relevant provisions of Schedules II, III and IV.

The reporting accountant should ensure that he does not commit any misconduct, as defined in the Chartered Accountants Act, 1949. In particular, if he has substantial interest in the business, he should disclose the same in his report. *[See Institute's publication, "Code of Ethics".]*

8.9.2 Fees for Issuing the Reports: B(1) of Part II of Schedule II states that the report shall be made by the auditor of the company. An auditor appointed under Section 224 at the Annual General Meeting holds office until the conclusion of the next Annual General Meeting on a fee fixed under Section 224(8). It is advisable for the members to advise the Board of Directors of their client companies to draft the resolutions appointing them in such a way as to leave with the Board the authority for fixing the fees for making the reports to be set out in the company prospectuses. The fee for making the reports under clauses B(1) and B(4) is a matter of agreement between the Board of Directors and the reporting accountant and should be determined on the basis of factors such as the quantum of work involved, extent of the reporting accountant's responsibility, etc.

8.9.3 Signing the Report: Where the report is issued in a firm name, it should be signed by the member in his individual name, as partner, for and on behalf of the firm, as in the case of other company audit reports.

8.9.4 Consent Letters: Section 60(3) requires that a prospectus delivered to the Registrar of Companies for registration shall be accompanied by the consent, in writing, of the persons named therein as the auditor, legal adviser, attorney, solicitor, banker or broker of the company, to act in that capacity. Section 60 (1) requires that the prospectus should have endorsed thereon, or attached thereto, any consent required by Section 58 from any person as an expert. As stated earlier, a chartered accountant whose report is included in the prospectus is to be treated as an expert. According to Section 58, the expert should give his written consent to the issue of the prospectus, with his statement or report included in the form and context in which it is included. The prospectus should further state that he has not withdrawn his consent as aforesaid.

8.9.5 Liability for mis-statement in Prospectus: Section 62 casts, inter alia, on every person who has authorised the issue of the prospectus, a liability to pay compensation to every person who subscribes for shares or debentures on the faith of the prospectus for any loss or damage he may have sustained by reason of any untrue statement included therein. However, a Chartered Accountant giving his consent under Section 58 or 60(3), shall be liable, only in respect of an untrue statement, if any, purporting to be made by him as an expert.

A statement shall be deemed to be untrue, if the statement is misleading in the form and context in which it is included. Where the omission from a prospectus of any matter is calculated to mislead, the prospectus shall be deemed, in respect of such omission, to be a prospectus in which an untrue statement is included (Section 65). Where a Chartered Accountant is liable to pay compensation, he may claim contribution, as provided in Section 62(5).

8.9.6 Reports and Certificates: Clause B(1) of Part II of Schedule II begins with the words "a report by the auditor.....," but later in the para below sub- clauses (a) and (b) of the said clause B(1), the words "together with certificate from the auditor" have been used. The certificate referred to therein obviously means the report.

8.9.7 Rights and Powers: The next point for consideration is, what are the rights and powers which the Chartered Accountant has for performing his onerous duties? In this connection, it should be noted that only the report required by clause B(1) of Part II of Schedule II is to be made by the company's auditors; all other reports (clauses B(4) and B(5)

of part II of Schedule II; clauses 1 and 2 of part II of Schedules III and IV) are to be made by accountants to be named in the prospectus or statement in lieu of prospectus, and not necessarily by the company's auditors.

In cases coming under clause B(1) of Part II of Schedule II, the report is to be given by the auditors, who are empowered, by Section 227(l) to have right of access at all times to the books and accounts and to require from the officers of the company necessary information and explanations. Thus, they seem to be vested with sufficient powers to discharge their duties.

For an Accountant under clause B(4) and B(5) of Part-II of Schedule-II, he should be a Chartered Accountant but not an "officer or a servant, etc., of the company. It will be observed that such an accountant has no statutory powers. Therefore, he should ensure that the necessary authority is given to him by the Board of Directors to discharge his duties.

8.9.8 To whom should the report be made: There is no provision in the Act in this behalf. The usual practice is to address the report to the Board of Directors of the company.

Accounting Aspects - As stated earlier, the reporting accountant is required to report on the profits and losses (distinguishing items of non-recurring nature) for the preceding 5 years and on the assets and liabilities, after making such adjustments as he may consider necessary. The Act does not spell out the nature of these adjustments. The reporting accountant should therefore keep in mind the object of the law viz., the protection of potential investors, and accordingly, his report should provide the information which will be relevant for a reader to make decisions regarding investment in the company. Of course, the report has to deal only with past data (and not projections), but they should be stated in such a manner as to enable a reader to get a clear idea of the trend in profits.

Adjustments to the figure of profits will usually be required in the following circumstances:

(a) Where there are material facts which would have been taken into consideration while preparing the accounts for the respective years, had those facts been known at that time.

(b) Where certain types of income earned or expenditure incurred in the past, which are of a material nature, are unlikely to recur. Such items might have been considered normal at the time the accounts were prepared, but due to subsequent developments they may not recur, and hence adjustments may be necessary.

(c) Where the accounting policies have not been consistently applied during the period and the effect of a change therein is material.

Adjustments may also become necessary in relation to the statement of assets and liabilities included in the report. In particular, the accountant will have to decide whether all the Notes on Accounts appearing in the published accounts should be reproduced. It may well be that many of them can be omitted; it may equally be found necessary to add certain new items.

Note : Students are also advised to refer Statement on the Companies (Auditor's Report) Order, 2003 alongwith SA 700-799 series on Audit Conclusions and Reporting i.e. reproduced in the appendix of Volume II of Study Material AAPE for better understanding.