

Risk Assessment, Audit Conclusions and Reporting



Introduction

Considering the present situation in the corporate world, the risk assessment of audit has assumed utmost importance. The Institute of Chartered Accountants of India (ICAI) had issued Standards on Auditing (SA) to guide the members while carrying out the audit. These standards help the member/auditor to carry out the audit effectively and efficiently.

The Process of audit starts with risk assessment and ends with reporting. This entire process could be summarised as follows:



CA Abhay V. Kamat

(The author is a member of the ICAI. He can be reached at ninkamat@rediffmail.com)

- Risk Assessment
- Audit Planning
- Conduct of Audit
- Audit Conclusion
- Audit Reporting

Risk Assessment

ICAI has issued the standards on risk assessment and response to assessed risk. One of such standard viz. SA 315 intends to identify and assess the risk of material misstatement whether due to fraud or error at the financial statement and assertion levels.

The risk assessment procedure shall include: -

1. Inquiries of management and of others within the entity which is likely to assist the auditors in identifying risk of material misstatement.

2. Analytical Procedure
3. Observations and inspections

The auditor should obtain an understanding of Industry, Regulatory and other external factors, Nature of entity, Selection and application of accounting policies, objectives and strategies and related business risks, measurement and review of entity's financial performance, internal control, etc.

The SA sets out five components of Internal Control

1. Control environment
2. Entity's risk Assessment procedure
3. The information system, including related business processes relevant to financial reporting and communication
4. Control activities related to Audit
5. Monitoring of Controls

Looking at the above factors the auditor is able to consider potential magnitude of risks in the context of Financial Statements which may have likelihood of resulting into material misstatement of Financial Statements. The auditor shall determine the materiality to be applied during the course of audit.

Considering the risk assessment and other aspects, the planning for audit could be done with respect to timing, staffing, substantive testing analytical procedures, etc.

The auditor shall determine the areas of audit and audit procedures considering the risk assessment procedure carried out by him. The auditor shall modify or extend the checking in high risk areas and finalise his audit conclusions.

Audit Conclusions

During the course of the audit, the auditor shall note the audit findings and draw audit conclusions. The audit conclusions shall be reviewed in the light of materiality and finally the observations which may have impact on the material misstatements of the Financial Statements are communicated to the persons charged with the governance. If the entity takes corrective actions with regards to the audit observations the auditor reviews the corrections carried out. However, when the entity

does not agree for corrective action the auditors shall suitably deal the said audit conclusions in its audit report.

The audit findings and conclusions need to be documented properly. The auditor should retain the audit evidences, internal or external in its working papers. This will enable the auditors to substantiate the audit conclusions, in case, he needs to do so before the auditee or any other regulatory Authority.

Audit Reporting

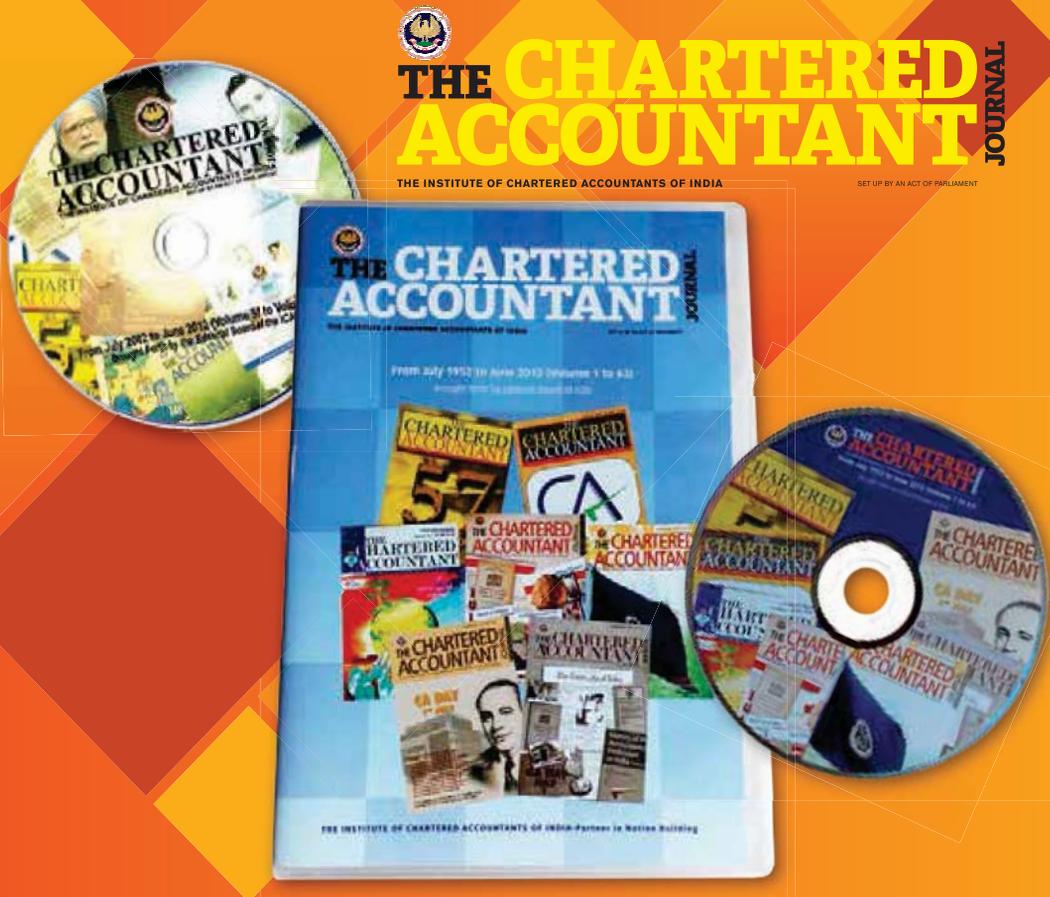
The deliverables for the auditors is the Audit Report. The auditor should spend enough time and resources while finalising the audit Report. In spite of good conduct of the audit if the material observations are not reported through audit report then, such audit efforts are likely to go waste. Hence the Audit Report should be completed properly keeping in mind the guidance given by ICAI through Standards on Auditing (SA)

The audit findings and conclusions need to be documented properly. The auditor should retain the audit evidences, internal or external in its working papers. This will enable the auditors to substantiate the audit conclusions,

The Following Standards on Auditing deal with Audit Reporting.

1. SA 700 (Revised) : Forming an opinion and reporting on Financial Statements
2. SA 701 : Communicating key Audit Matters in the Independent Auditors Report
3. SA 705 (Revised) : Modification to the opinion in the Independent Auditors Report
4. SA 706 (Revised) : Emphasis of Matter paragraph and other matter paragraph in the Independent Auditors Report
5. SA 710 : Comparative information – Corresponding figures and Comparative Financial Statements

THE CHARTERED ACCOUNTANT JOURNAL AND ITS MANY DIGITAL VERSIONS



The journal of the Institute, *The Chartered Accountant*, started its journey with an eight-page Bulletin in January 1950 and this Bulletin transformed into a full-fledged journal in July 1952, which had a circulation of less than 5000 copies. The journal, which is being brought out monthly ever since July 1952 with a circulation of more than 274,000 copies today, is available in many facets of digital version also.

- An eJournal is hosted online on ICAI website www.icai.org as a transformed new hi-tech user-friendly *e-magazine in eMagazine platform V6* based on the latest HTML5 technology format with a range of convenience features wherein users can browse as if turning page after page like in hard copy.
- However, for the added and alternative convenience of readers, particularly for separate content-wise downloads, the journal continues to be hosted in the PDF format and also in Indexed mode. The archives of digital journal are available on ICAI website from July 2002 onwards.
- Further, this eJournal is now also available on mobile, compatible on iOS (iPad/iPhone etc.) and Android devices. It can be accessed at <http://www.icai.org/> under 'e-journal' tab. The eJournal is also available on ICAI Mobile App.
- As an add-on service, the highlights of every issue of journal in capsule form and the President Message in the journal are mass-emailed to all the members.
- In an important initiative to provide a single point reference window to the readers of *The Chartered Accountant* journal and leverage the technology to serve them better, a DVD of past issues of the journal is also available for readers and other stakeholders. While a DVD of 10 years of the journal (July 2002-June 2012) in PDF format has been brought out for readers at a nominal cost, a more recent HTMLised DVD containing 63 years of *The Chartered Accountant* journal (July 1952 to June 2015) has also been released. In this HTML-version DVD in a searchable mode, readers can global search the contents through key words relating to accounting, auditing, taxation, etc., besides searching by month, year, volume, category (like Circulars & Notifications, ICAI News, Legal Decisions, etc.), author, etc.

Auditing

Financial Statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence.

Adverse Opinion

The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatement, individually or in 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 shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion and the auditor conclude that the possible effects on the Financial statements of undetected misstatements, if any, could be both material and pervasive.

the auditor conclude that the possible effects on the Financial statements of undetected misstatements, if any, could be both material and pervasive.

It is also said that the auditor shall disclaim an opinion in extremely rare circumstances involving multiple uncertainties.

The table below illustrates the situation in summarised manner

Nature of Matter Giving Rise to the Modification	Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements	
	Material but Not Pervasive	Material and Pervasive
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Emphasis of Matter or other matters

Apart from the above the auditor can mention Emphasis of Matter or Other Matters without qualifying the Audit Report.

- Emphasis of matter included in the auditor's report that refers to a matter appropriately presented or disclosed in the Financial statements that, in the auditor's judgement is of such importance that it is fundamental to user's understanding of the Financial Statements.
- Other matters paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the Financial Statements that, in the auditor's judgement, is relevant to user understanding of the audit, auditor's responsibilities or the auditor's report.

Paras A-4 and A-5 of SA 706 deals with the situation when the para Emphasis of Matter should be included or not included in the Auditor's Report

Contents of the Audit Report

SA 700 (Paras 21-47) deals with the contents of the Auditors Report. The Auditor's Report shall be in writing and the illustrative formats are given in the appendix to the standard.

With effect from 1st April 2018 the format prescribed for the listed Entity has been revised where in the 'Opinion' para will appear first. In case of qualified report, the 'Basis of Qualification'



ePass

2003 Series Tokens



ePass, India's largest selling PKI Tokens,
Wishes you very...

HAPPY
Diwali

THIS FESTIVE SEASON

GET...



TaxPro GST
Making GST Adorable

...Absolutely FREE



www.charteredinfo.com



For more details please visit website or call on numbers below.

Delhi
011-45037177

Mumbai
022-28955888

Bangalore
080-40921639

Ahmedabad
079-40083529

Kolkata
033-40078356

Nagpur
0712-6638888

Auditing

shall appear after that and then the qualification/modification. Emphasis of matter shall appear after opinion as per SA 706.

Normal contents of the audit report are – Titles, Address, Auditors opinion, Basis of opinion, Going concern, Key Audit Matters, Responsibilities, Signature of the Auditor, place of the signature and date of Audit Report. Para 48 of SA 700 gives details of the contents of the Auditors Report.

For the listed Entities the auditor should mention the Key Audit Matters (SA 701)

Key Audit Matter are those matters, that in the auditor's professional judgement, were of most significance in the audit of the Financial Statements of the current period. Key Audit Matters are selected from the matters communicated with those charged with governance.

In determining Key Audit Matters the auditor shall take into account the following:

The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:

- a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315.
- b) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.


Key Audit matter are those matters, that in the auditor's professional judgement, were of most significance in the audit of the Financial Statements of the current period. Key Audit Matters are selected from the matters communicated with those charged with governance.


- c) The effect on the audit of significant events or transactions that occurred during the period.

The description of each key audit matter in the Key Audit Matters section of the auditor's report shall include a reference to the related disclosure(s), if any, in the financial statements and shall address:

- a) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and
- b) How the matter was addressed in the audit.

Key Audit Matters are not substitute for disclosures in the Financial Statements that the applicable financial reporting framework requires management to make or that are otherwise necessary to achieve fair presentation. They are also not substitute for the auditors expressing modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised). However, Para 29 of SA 705 (Revised) prohibits the auditors from communicating Key Audit Matters when the auditor disclaims an opinion on the financial statements unless such reporting is required by law or regulation.

The Auditor should have proper documentation of Key Audit Matters

Conclusion

The present Article tries to summarise some of the key aspects in Risk Assessment, Audit Conclusions and Reporting. It's a gospel truth that there is no substitute for human brain. Hence the professional judgement and professional scepticism will decide the quality of the audit which in turn needs to be converted to proper Audit Reporting. It is not only the conduct of the audit which is important but effective audit reporting is also essential. Audit report is the final deliverable from the Auditors. Therefore, proper considerations as guided by ICAI should be followed to have effective Audit Reporting. ■