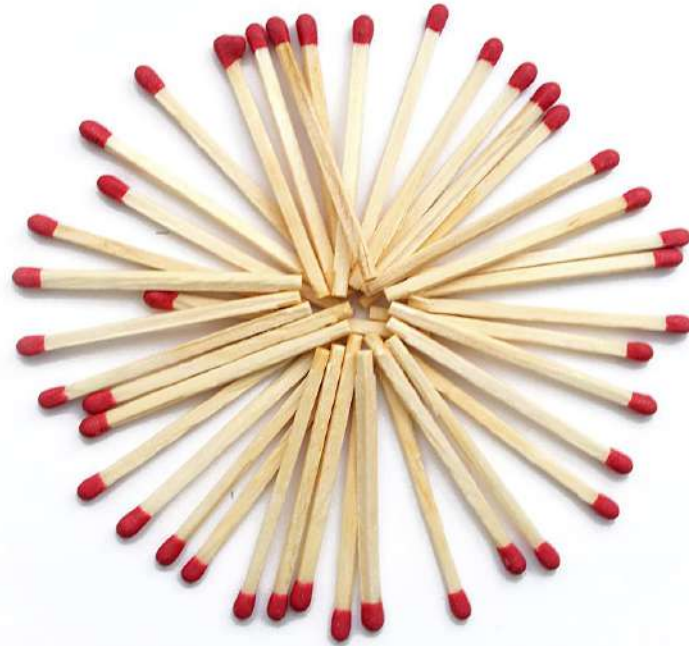


Audit Reports - Refresher



Technical Session

Contents



- SA 700 (Revised) - Forming an Opinion and Reporting on Financial Statements
- SA 701 - Communicating Key Audit Matters in the Independent Auditor's Report
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- SA 706 (Revised) - Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
- SA 720 - Other Information
- Audit reports - Additional Reporting due to COVID (Practical examples)

Summary of Reporting Standards:

SA 700 (Revised)

Represents the overarching standard for auditor reporting in accordance with the SAs; includes the required elements of the auditor's report, and specifies the contents of the sections for the opinion, basis for opinion, management responsibilities and auditor responsibilities.

SA 701

Includes the requirements and guidance for communicating Key Audit Matters (KAMs) – the centerpiece of the new auditor's report and the most significant change to auditor reporting.

SA 720

Includes the reporting requirements and guidance for other information.


SA 705 (Revised)

Addresses how the elements of the auditor's report are affected when a qualified, adverse or disclaimer of opinion is expressed.

SA 706 (Revised)

Addresses the requirements for inclusion of Emphasis of Matter (EOM) and Other Matter (OM) paragraphs in the auditor's report, and has been updated to:

- Explain the relationship of EOM and KAMs.
- Remove reporting of material uncertainties related to going concern as a form of EOM reporting



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

SA 700 (Revised)

This SA is effective for audits of financial statements for periods beginning on or after April 1, 2018.

Revised SA	Existing requirement
Opinion	<ul style="list-style-type: none">• Introduction para and Opinion para combined and now to be reported under the title 'Opinion' at the beginning of the audit report, followed by the Basis for Opinion paragraph.
Basis for Opinion	<ul style="list-style-type: none">• The Basis for Opinion section previously was required only when the auditor's opinion was modified. Now, this section will be required for all auditor's reports.• Includes that the audit was conducted in accordance with the SAs and whether the audit evidence obtained is sufficient and appropriate to provide a basis for the opinion.
Independence statement	<ul style="list-style-type: none">• Basis for Opinion section will also include a new affirmative statement that the auditor is independent of the entity and has fulfilled the auditor's other relevant ethical responsibilities relating to the audit.
Material uncertainty related to Going Concern	<ul style="list-style-type: none">• Instead of the current requirement to report material uncertainties within an Emphasis of Matter paragraph, reporting of a material uncertainty is required to be made within a separate section under the heading "Material Uncertainty Related to Going Concern" where use of going concern is appropriate but a material uncertainty exists.• However, if the auditor concludes that there is a material uncertainty and the disclosure given in the financial statements are inadequate, the auditor should modify the audit report in accordance with the requirements specified in Revised SA 705.

SA 700 (Revised) (Contd.)

Revised SA

Existing requirement

Emphasis of Matter

- Drawing attention to related note in the financial statements describing the matter which an auditor believes to be reported as an EOM.
-

Key Audit Matters

- Key Audit Matters section for audits of listed entities and circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report;
 - When the auditor is required by law or regulation to communicate key audit matters in the auditor's report. (covered in subsequent slides)
 - In case no based on the professional judgment auditor determines that there are no key audit matters to communicate in their report, auditor is required to mention under this section.
-

Other Information

- As we all know, the Revised SA 720 - The Auditor's Responsibilities Relating to Other Information brought in an additional reporting responsibility for auditors. Other information is financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.
-

Management's Responsibility

- BOD responsibility for matters stated under section 134(5) of the Companies Act, with respect to preparation of financial statements including maintenance of adequate accounting records, safeguarding the assets, preventing and detecting frauds and other irregularities, selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively.
 - Assessment of entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate.
 - Identification those responsible for the oversight of the financial reporting process, when those responsible for such oversight are different from those who fulfill the responsibilities for preparing financial statements.
-

SA 700 (Revised) (Contd.)

Revised SA	Existing requirement
Auditor's Responsibility	<ul style="list-style-type: none">• Expanded description of the auditor's responsibilities.• This approach results in a fuller description of the auditor's responsibilities in relation to specific matters including fraud, internal control, accounting policies and accounting estimates, evaluating the overall presentation, structure and content of the financial statements and disclosures, group audits, and communications with those charged with governance. (covered in next slide)
Other Matter (OM)	<ul style="list-style-type: none">• This section includes, any matter which an auditor wants to include as part of their reporting. (Covered in subsequent slides)
Report on Other Legal and Regulatory Requirements	<ul style="list-style-type: none">• This section includes various reporting requirement under section 143(2) of the Companies Act. (Covered in subsequent slides)

Auditor's Responsibility

Enhanced requirements to describe an audit by stating that the auditor's responsibilities are:

- With respect to misstatements, to either describe that they are considered material under certain circumstance (or) define/ describe the materiality.
- To identify and assess the risks of material misstatement, to design and perform audit procedures responsive to those risks; and to obtain sufficient, appropriate audit evidence.
- To obtain an understanding of internal control relevant to the audit.
- To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- To conclude on the appropriateness of management's use of the going concern basis of accounting.
- To evaluate overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- To state that the auditor communicates to those charged with governance regarding planned scope and timing of audit, significant audit findings, including significant deficiencies in internal control.
- To state that the auditor provides a statement of Independence to those charged with governance.
- In case of listed entities, to state that from the matters communicated to those charged with governance, matters that were of most significance are determined and therefore key audit matters.

Report on Other Legal and Regulatory Requirements

Requirements under section 143(2) of the Companies Act:

- To state auditor has sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
- In auditor's opinion, proper books of account as required by law have been kept by the Company and its joint operation companies so far as it appears from their examination of those books and the reports of the other auditors [and proper returns adequate for the purposes of their audit have been received from the branches not visited by them.]
- The reports on the accounts of the branch offices of the Company audited under Section 143(8) of the Act by branch auditors have been sent to auditors and have been properly dealt with by them in preparing this report .]
- The Balance Sheet, the Statement of Profit and Loss including Other Comprehensive Income , the Statement of Cash Flows/ the Cash Flow Statement and Statement of Changes in Equity dealt with by this Report are in agreement with the relevant books of account [and with the returns received from the branches not visited by them].
- In auditor's opinion, the aforesaid standalone financial statements comply with the Ind AS/ Accounting Standards specified under Section 133 of the Act.
- The matter described in the Material uncertainty related to Going Concern section, in auditor's opinion, may have an adverse effect on the functioning of the Company .

Report on Other Legal and Regulatory Requirements

Requirements under section 143(2) of the Companies Act:

- On the basis of the written representations received from the directors as on the reporting date have been taken on record by the Board of Directors , none of the directors is disqualified from being appointed as a director in terms of Section 164(2) of the Act.
- With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, reference to our separate Report is required to given. Our report shall express an unmodified opinion on the adequacy and operating effectiveness of the Company's internal financial controls over financial reporting [or] qualified / adverse opinion on the operating effectiveness of the Company's internal financial controls over financial reporting for the reasons stated therein [or] qualified / adverse opinion on the adequacy and operating effectiveness of the Company's internal financial controls over financial reporting for the reasons stated therein [or] disclaimer of opinion on the Company's internal financial controls over financial reporting for the reasons stated therein.

OR

- Reporting on the adequacy of Internal Financial Control Over Financial Reporting of the Company and the operating effectiveness of such controls, under section 143(3)(i) of the Act is not applicable in view of the exemption available to the Company in terms of the notification no. G.S.R. 583(E) dated 13 June 2017 issued by the Ministry of Corporate Affairs, Government of India, read with general circular No. 08/2017 dated 25 July 2017

Report on Other Legal and Regulatory Requirements

Requirements under section 143(2) of the Companies Act:

- With respect to the other matters to be included in the Auditor's Report in accordance with the requirements of section 197(16) of the Act, as amended, *In auditor's opinion and to the best of information and according to the explanations given to them, the remuneration paid by the Company to its directors during the year is in accordance with the provisions of section 197 of the Act.*

OR

- In auditor's opinion and to the best of our information and according to the explanations given to them, the remuneration paid/ provided by the Company to its directors during the year is in excess of the limits laid down under section 197 of the Act. Details of remuneration paid in excess of the limit laid down under this section are as given below: *(Provide details of excess managerial remuneration covering at minimum the period, number of managerial personnel, amount of excess remuneration, the treatment in the standalone financial statements).*

OR

- In auditor's opinion and to the best of our information and according to the explanations given to them, the Company being a private company, section 197 of the Act related to the managerial remuneration is not applicable.

Report on Other Legal and Regulatory Requirements

Enhanced requirements to describe an audit by stating that the auditor's responsibilities are:

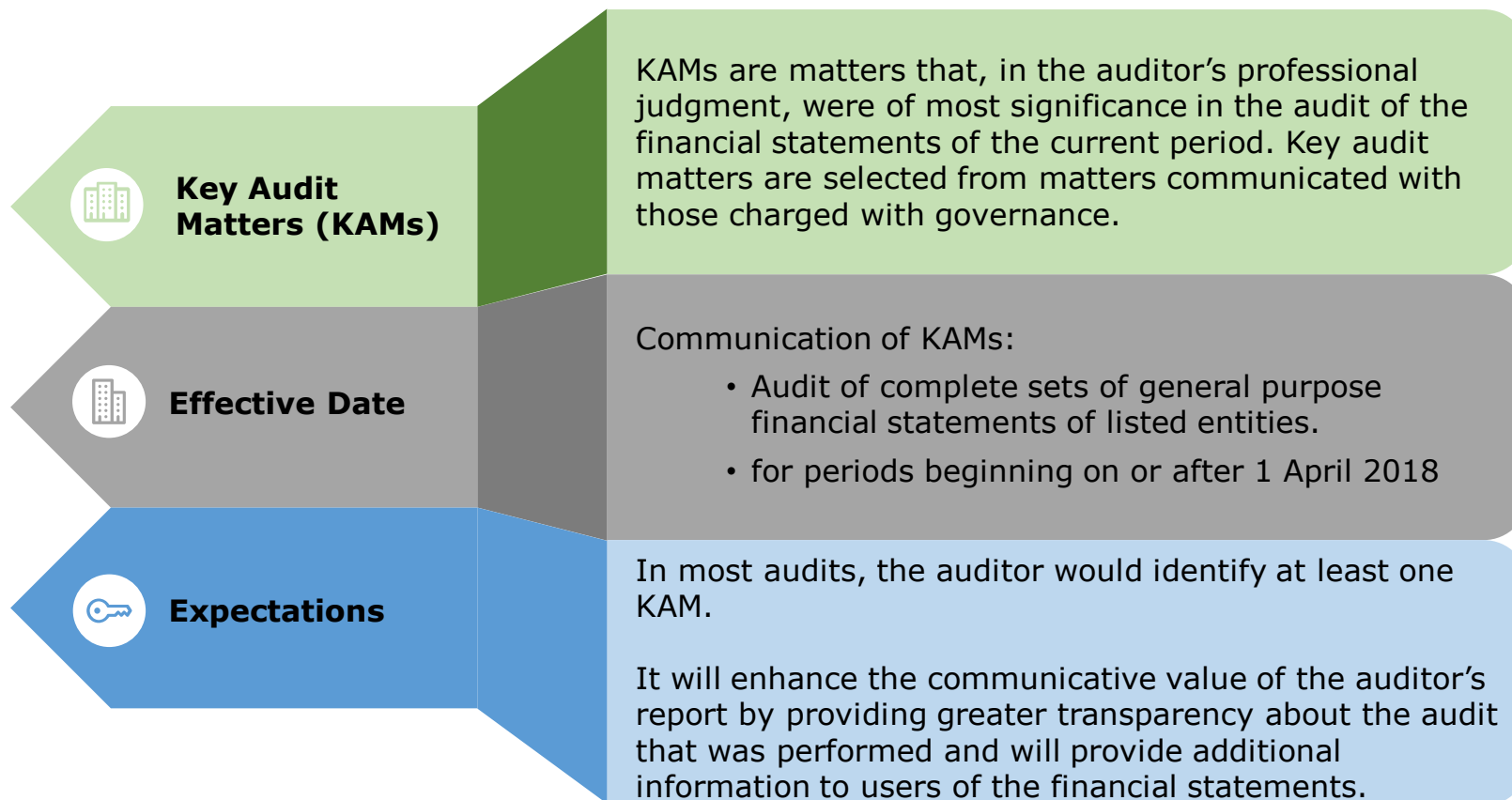
- With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, as amended, auditor is required to make a statement that in their opinion and to the best of their information and according to the explanations given to them:
- *The Company has disclosed the impact of pending litigations on its financial position in its standalone financial statements -; [or the Company does not have any pending litigations which would impact its financial position]*
- *The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts; [or the Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.]*
- *There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company [or, following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company or there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.]*
- As required by the Companies (Auditor's Report) Order, 2016 ("the Order") issued by the Central Government in terms of Section 143(11) of the Act, auditor to give a separate annexure containing a statement on the matters specified in paragraphs 3 and 4 of the Order.

SA 701 –

Communicating Key
Audit Matters in the
Independent
Auditor's Report



Key Audit Matters



Challenges and Opportunities vs Expected Benefits

Challenges and Opportunities

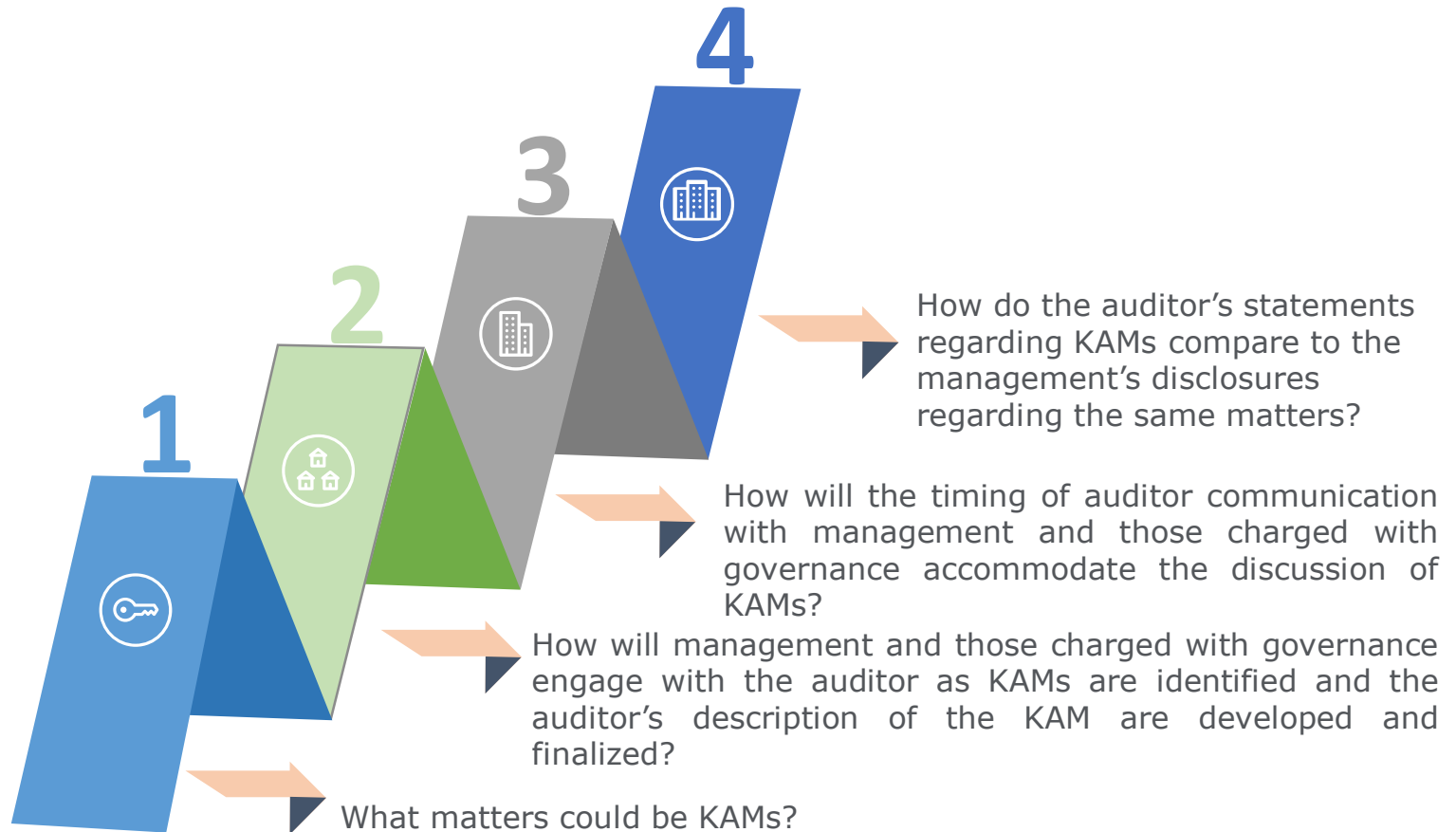
- Describing KAM in a succinct and understandable manner
- Early engagement between the auditor and those charged with governance regarding KAMs.
- Additional time likely needed to finalize the auditor's report (depending on complexity of matters that are KAMs)

Expected Benefits

- Increased confidence in financial statements.
- Enhanced communication about the audit directly from the auditor.
- More informative, transparent and relevant auditor's report.
- Enhanced discussions between auditors and those charged with governance
- Improved quality of financial reporting



Considerations for those charged with governance and management



Steps the Auditor Takes to Identify KAM:

STEP 1

- Identify matters communicated with those charged with governance.

STEP 2

- For each matter identified in Step 1, determine matters that required significant auditor attention in performing the audit.

STEP 3

- For each matter identified in Step 2, determine matters that were of most significance in the audit of the financial statements in current period.

STEP 4

- Document whether or not each matter identified in Step 3 was determined to be a KAM and the basis of such determination.

STEP 5

- Communicate each KAM in the Auditor's Report (or if there are no KAMs identified, include a statement to that effect).

Step 1 - Identify matters communicated with those charged with governance

- The first step in the process of identifying KAMs is to *determine the matters communicated with those charged with governance* in connection with the audit of the current period's financial statements. The rationale for starting with these matters is that such matters communicated to those charged with governance will include those that will be most meaningful to investors and other financial statement users.
- As per SA 701, the auditor's decision-making process in determining key audit matters is designed to select a smaller number of matters from the matters communicated with those charged with governance, based on the auditor's judgment about which matters were of most significance in the audit of the financial statements of the current period. Therefore, as a practical matter, our starting point for identifying matters that may be KAMs is those matters that we have communicated to those charged with governance (or which we plan to communicate before the end of the audit).
- Matters communicated to those charged with governance include auditor communication requirements under SA 260 (Revised), other applicable ICAI rules and standards, as well as any other communications we have made to those charged with governance that were not specifically required.

"Matters communicated with TCWG"

Matters normally communicated with TCWG

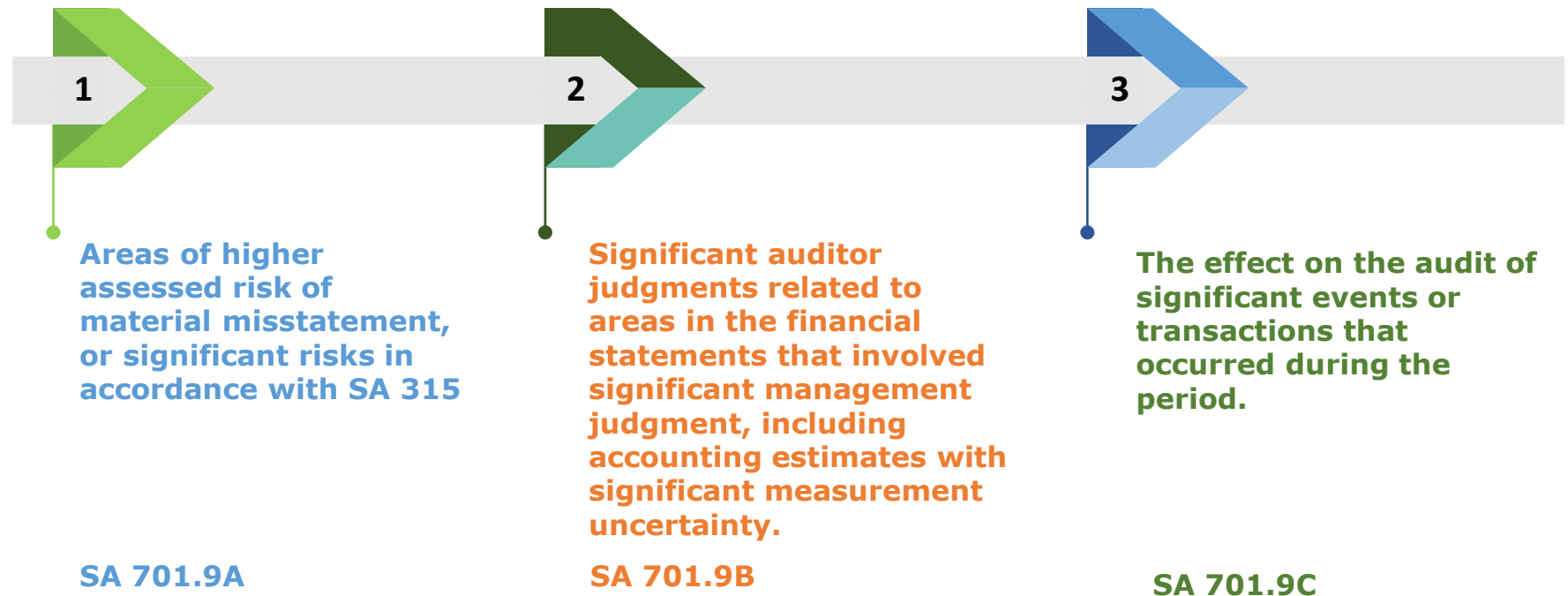
SA 260 (Revised)

- Auditor's responsibilities in relation to the financial statement audit.
- Planned scope and timing of the audit, including significant risks identified:
 - ✓ Plan for addressing the significant risks of material misstatement, whether due to fraud or error.
 - ✓ Plan to address areas of higher assessed risks of material misstatement.
 - ✓ Approach to internal control relevant to the audit.
 - ✓ Application of materiality.
 - ✓ Nature and extent of specialized knowledge, including use of an auditor's expert.
 - ✓ Where SA 701 applies, preliminary views about matters that may be areas of significant audit attention and therefore may be key audit matters.
- Significant findings from the audit.
 - ✓ Where SA 701 applies, this would be relevant to determine matters that required significant auditor attention and therefore may be key audit matters.
- Auditor independence.

Step 2 – For Each Matter Identified in Step 1, Determine matters that required significant auditor attention in performing the audit

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 (SA 701.9):



What does significant auditor attention mean?

Involvement of Expert

Involvement of Expert

Involve difficult or complex auditor judgments

Area of complexity and significant management judgement



Significant Auditor Attention

Involvement of Expert

The extent of involvement of senior personnel on the audit engagement or the involvement of an auditor's expert

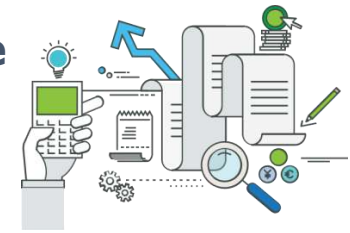
Affect Strategy

Affects the auditor's overall audit strategy, the allocation of resources and extent of audit effort

Pose Challenges

Matters that pose challenges to the auditor in obtaining sufficient appropriate audit evidence or in forming an opinion

Step 3 - For each matter identified in Step 2, determine matters that were of most significance in the audit of the financial statements in the current period



- Determining which, and how many, of those matters that required significant auditor attention were of most significance in the audit is a **matter of professional judgment**.
- While many matters may involve auditor judgment, in order to determine which of these matters are KAMs we need to determine whether these matters were of most significance in the audit of current period.
- SA 701 includes **list of non-exclusive factors** that the auditor is required to take into account, when determining the relative significance of a matter communicated with those charged with governance and whether such a matter is a key audit matter:
 - Importance of the matter to intended users' understanding of the financial statements and its materiality.
 - The nature of the underlying accounting policy relating to the matter or the complexity or subjectivity involved in management's selection of an appropriate policy compared to other entities within its industry.
 - The nature and materiality, quantitatively or qualitatively, of corrected and accumulated uncorrected misstatements due to fraud or error related to the matter, if any.

Step 3 - For each matter identified in Step 2, determine matters that were of most significance in the audit of the financial statements in the current period (Contd.)



-
- The nature and extent of audit effort needed to address the matter, including the extent of specialized skill or knowledge and consultations outside the engagement team.
 - The nature and severity of difficulties in applying audit procedures, evaluating the results of those procedures, and obtaining relevant and reliable evidence on which to base the auditor's opinion, in particular as the auditor's judgments become more subjective
 - The severity of any control deficiencies identified relevant to the matter.
 - Whether the matter involved a number of separate, but related, auditing considerations. For example, long-term contracts may involve significant auditor attention with respect to revenue recognition, litigation or other contingencies, and may have an effect on other accounting estimates.

Step 4 - Document whether or not each matter identified in Step 3 was determined to be a KAM and the basis for such determination



The following are required to be included in the audit documentation:

- a) The matters that required significant auditor attention, and the **rationale for the auditor's determination** as to whether or not each of these matters is a key audit matter;
- b) Where applicable, **the rationale for the auditor's determination that there are no key audit matters** to communicate in the auditor's report or that the only key audit matters to communicate are those matters that give rise to a modified opinion in accordance with SA 705 (Revised) or a going concern event in accordance with SA 570 (Revised).
- c) Where applicable, the rationale for the auditor's determination not to communicate in the auditor's report a matter determined to be a key audit matter; and
- d) Where applicable, a written representation from management as to why public disclosure about a matter determined to be a key audit matter is not appropriate, including management's view about the significance of the adverse consequences that may arise as a result of such communication.

Step 5 - Communicate each KAM in the auditor's report (or if there are no KAMs identified, include a statement to that effect).



- The final step in the process communicate each KAM in the auditor's report or, if there are no KAMs identified, include a statement in the auditor's report to that effect. Each KAM description should include a reference to the related disclosure(s), if any, in the financial statements and should address:
 - Why the matter was considered to be one of most significance in the audit and therefore determined to be a KAM; and
 - How the matter was addressed in the audit

Illustrative Example

*[Insert key audit matter (KAM) title and reference to financial statement notes, e.g. **Account Balance/Disclosure (if and as applicable) – Refer to Notes X and Y to the financial statements**]*

Key Audit Matter Description	Describe the KAM and the principal considerations that led to the determination that the matter was a KAM
How the Key Audit Matter Was Addressed in the Audit	Describe how the KAM was addressed in the audit

Placement of KAMs in the Audit Report



- Placement of KAMs in the audit report Generally, the KAMs section is required to be placed after the 'basis for opinion' paragraph and before the 'management responsibility' paragraph.
- In case the 'material uncertainty relating to going concern' section is required as per the revised SA 570, the KAM section is placed after that section.
- *Further, regarding the placement of the KAM section, paragraph A16 of the revised SA 706 indicates:*

When the KAMs section is presented in the auditor's report, an 'emphasis of matter' paragraph may be presented either directly before or after the KAMs section, **based on the auditor's judgment as to the relative significance of the information included in the 'emphasis of matter' paragraph.**

The auditor may also add further context to the heading 'emphasis of matter', such as 'emphasis of matter – subsequent event', to differentiate the 'emphasis of matter' paragraph from the individual matters described in the KAMs section.

Relationship of Key Audit Matters with other aspects



The matters which are by their nature are key audit matters:

- A matter giving rise to a modified opinion in accordance with SA 705 (Revised), or
- a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570 (Revised),

However, in such circumstances, these matters shall not be described in the Key Audit Matters section of the auditor's report. Rather, the auditor shall:

- a) Report on these matter(s) in accordance with the applicable SA(s); and
- b) Include a reference to the Basis for Qualified (Adverse) Opinion or the Material Uncertainty Related to Going Concern section(s) in the Key Audit Matters section.

A key change to SA 570 is that material uncertainties are no longer dealt with by way of emphasis of matter – they are now to be provided in a separate section with the heading "Material Uncertainty Related to Going Concern".

DO NOTE...

Communicating Key Audit Matters is not a :



A separate opinion on individual matters;




A 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;



A substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised); or



A substitute for reporting in accordance with SA 570 (Revised) when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.



SA 720 –
Other Information

Frequently asked question - # 1

What is “Other information”?

Other information is financial or non-financial information (other than financial statements and the auditor’s report thereon) included in an entity’s annual report.

An annual report is a document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements.

An annual report contains or accompanies the financial statements and the auditor’s report thereon and usually includes information about the entity’s developments, its future outlook and risks and uncertainties, a statement by the entity’s governing body, and reports covering governance matters.

Frequently asked question - # 2

What is the auditor's work effort with respect to "other information"?

The auditor is required to read the "other information" and in doing so consider whether there is a material inconsistency between the other information and the financial statements; and consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit.

In order to meet the requirement, the auditor is required to compare selected amounts or other items in the other information with such amounts or other items in the financial statements. The auditor is also required, while reading the other information, to remain alert for indications that the other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated.

Note - The auditor's responsibilities do not constitute an assurance on other information or impose an obligation on the auditor to obtain assurance about the other information.

Frequently asked question - # 3

Does other information need to be obtained prior to the date of the auditor's report?

No. The auditor shall determine through discussion with management, which document(s) comprises the annual report, and the entity's planned manner and timing of the issuance of such document(s). When some or all of the document(s) will not be available until after the date of the auditor's report, the auditor shall request management to provide a written representation that the final version of the document(s) will be provided to the auditor when available, and prior to the issuance by the entity, such that the auditor can complete the procedures required.

Frequently asked question - # 4

Does the auditor's responsibilities in relation to "other information" extend to information obtained after the date of the auditor's report?

Yes.

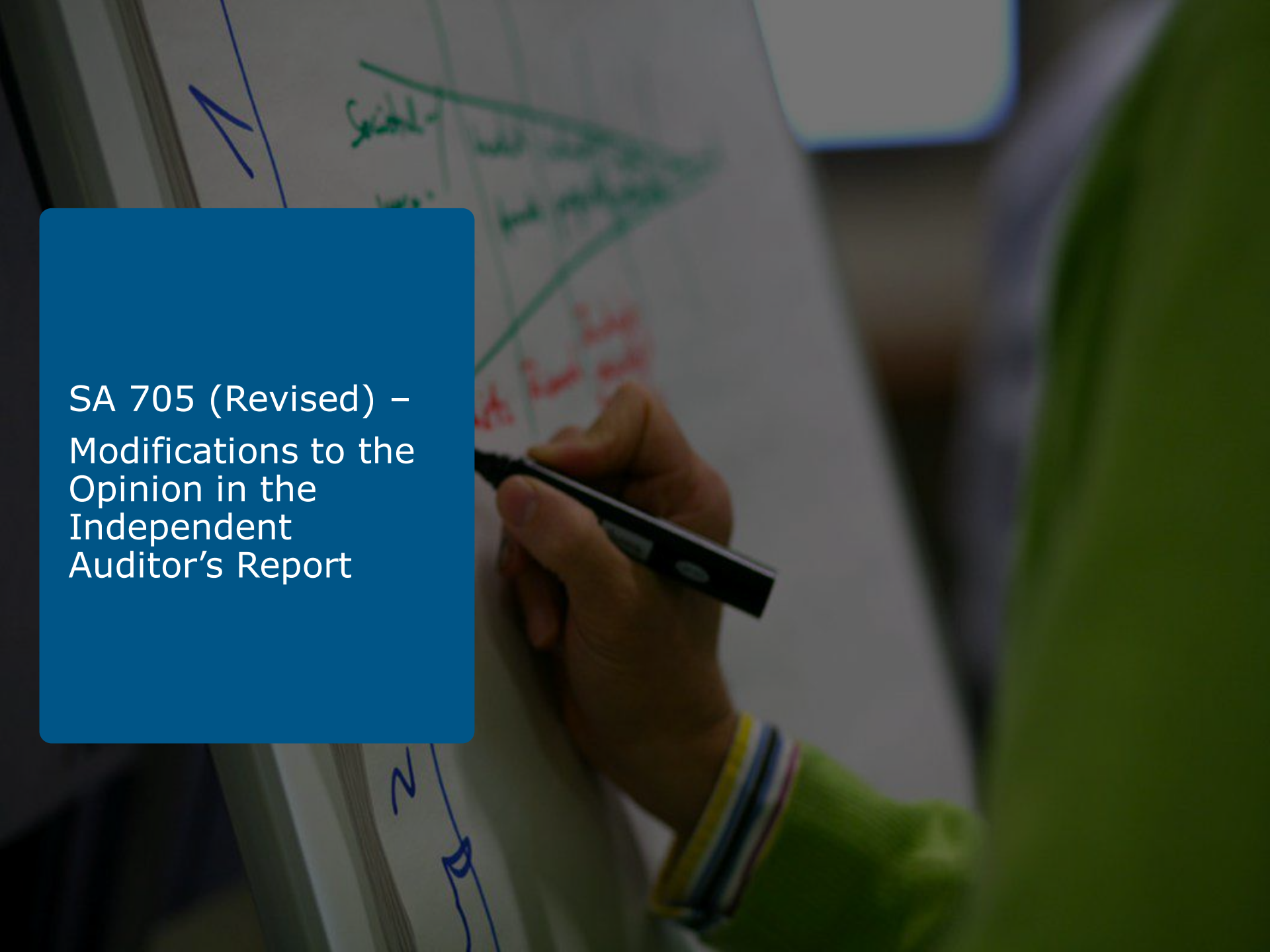
The auditor's responsibilities and work effort relating to other information applies regardless of whether the other information is obtained by the auditor prior to, or after, the date of the auditor's report.

Frequently asked question - # 5

If a material misstatement in the other information received prior / after to the date of the auditor's report exists, what shall the auditor do?

A misstatement exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information).

The auditor shall request management to correct the other information, otherwise the auditor shall take appropriate action, including considering the implications for the auditor's report and communications with those charged with governance.



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

Changes to SA 705 (Revised)



Para 29 - Considerations When the Auditor Disclaims an Opinion on the Financial Statements

Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report shall not include a Key Audit Matters section in accordance with SA 701.

Updates in SA 705 (Revised)

Effective for audits of financial statements for periods beginning on or after 1 April 2018.

- The reasons Provided for the auditor's inability to obtain sufficient appropriate audit evidence within the Basis for Disclaimer of Opinion section of the auditor's report provides useful information to users in understanding why the auditor has disclaimed an opinion on the financial statements and may further guard against inappropriate reliance on them.
 - However, communication of any key audit matters other than the matter(s) giving rise to the disclaimer of opinion may suggest that the financial statements as a whole are more credible in relation to those matters than would be appropriate in the circumstances, and would be inconsistent with the disclaimer of opinion on the financial statements as a whole.
 - *Accordingly, paragraph 29 of this SA prohibits a Key Audit Matters section from being included in the auditor's report when the auditor disclaims an opinion on the financial statements, unless the auditor is otherwise required by law or regulation to communicate key audit matters.*
-

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



Changes to SA 706 (Revised)



Particular

Existing requirement

Emphasis of Matter Paragraphs in the Auditor's Report

(Effective for audits of financial statements for periods beginning on or after 1 April 2018.)

The auditor shall include an Emphasis of Matter paragraph in the auditor's report provided: *When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.*

There may be a matter that is not determined to be a key audit matter in accordance with SA 701, but which, in the auditor's judgment, is fundamental to users' understanding of the financial statements (e.g., a subsequent event).

If the auditor considers it necessary to draw users' attention to such a matter, the matter is included in an Emphasis of Matter paragraph in the auditor's report in accordance with this SA.

Placement in the Auditor's Report

When the Emphasis of Matter paragraph relates to the applicable financial reporting framework, the auditor may consider it necessary to place the paragraph immediately following the Basis of Opinion section to provide appropriate context to the auditor's opinion.

When a Key Audit Matters section is presented in the auditor's report

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

The auditor may also add further context to the heading "Emphasis of Matter"

- such as "Emphasis of Matter – Subsequent Event",
 - to differentiate the Emphasis of Matter paragraph from the individual matters described in the Key Audit Matters section.
-

Changes to SA 706 (Revised)



Particular

Existing requirement

The auditor shall include an Other Matter paragraph in the auditor's report, provided:

- (a) This is not prohibited by law or regulation; and
- (b) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.

Placement in the Auditor's Report

Other Matter Paragraphs in the Auditor's Report

(Effective for audits of financial statements for periods beginning on or after 1 April 2018.)

When a Key Audit Matters section is presented in the auditor's report

- and an Other Matter paragraph is also considered necessary,
- the auditor may add further context to the heading "Other Matter", such as "Other Matter – Scope of the Audit",
- to differentiate the Other Matter paragraph from the individual matters described in the Key Audit Matters section.

When an Other Matter paragraph is included to draw users' attention

- to a matter relating to Other Reporting Responsibilities addressed in the auditor's report,
- the paragraph may be included in the Report on Other Legal and Regulatory Requirements section.

When relevant to all the auditor's responsibilities or users' understanding of the auditor's report,

- the Other Matter paragraph may be included as a separate section
- following the Report on the Audit of the Financial Statements and the Report on Other Legal and Regulatory Requirements.



Audit Reports – Additional Considerations due to Covid19

Additional COVID Considerations - EOM



Physical verification of inventory

Auditors in their audit report have stated that their attendance at the physical inventory verification carried out by the Management, was impracticable under the current lock-down restrictions imposed by the Government and therefore, auditors have relied on the related alternative audit procedures to obtain comfort over the existence and condition of inventory at year end. Some audit firms have also given reference of the Guidance provided by the Standard on Auditing (SA) 501, Audit Evidence - Specific Considerations for Selected items to obtain sufficient appropriate audit evidence.

Estimation of uncertainty relating to recoverability of value of the assets

Through EOM paragraph in auditors report, it was also highlighted that to assess the recoverability of certain assets, Companies have considered internal and external information up to the date of this report in respect of the current and estimated future global including Indian economic indicators consequent to the global health pandemic. The actual impact of the pandemic may be different from that considered in assessing the recoverability of these assets.

Additional COVID Considerations - EOM



Impact on operations

Under this category of EOM, Auditors have drawn attention on management's assessment of the financial impact due to the lock-down and other restrictions and conditions related to the COVID – 19 pandemic situation, for which a definitive assessment of the impact in the subsequent period is highly dependent upon circumstances as they evolve. Auditors' have highlighted the management's assessment of the impact of events arising upon the outbreak of Covid-19 on the business operations of the Company.

Uncertainty in economic conditions

Auditor in its audit report has highlighted that the Company has considered the possible effects that may result from the global pandemic relating to Covid-19 on its operation. In developing the assumptions relating to the possible future uncertainties in the economic condition because of this pandemic, the companies, as at the date of approval of financial results have used internal sources of information and, market based intelligence to arrive at its estimates.

Additional COVID Considerations - OM



Physical verification of inventory

Similar to EOM, audit reports consisted an “Other matter” reporting around auditor’s inability to perform physical verification of inventories at the year end and accordingly reliance placed on alternate procedures to audit the existence of Inventory as per the guidance provided by in SA 501 “Audit Evidence – Specific Considerations for Selected Items”.

Scanned records for audit procedures

Through OM paragraph in auditors report, it was also highlighted that the audit processes carried out based on the remote access to the extent available/feasible and necessary records being made available by the management through digital medium.

Additional COVID Considerations – Going Concern



Material uncertainties related to going concern

In the event of a material uncertainty, the revised version of SA 570 (Revised) requires a separate section to be included in the auditor’s report under the heading “Material uncertainty related to going concern”. In these circumstances, if adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion.

Along with EOM and OM paragraphs, some auditors also reported material uncertainties paragraph in their audit report wherein it was included that financial projections and business results prepared by the Company is uncertain is completely dependent on the future outlook of the business which is currently impacted due to Covid 19 however Company expects that they will be able to realize its assets and discharge its liabilities in its normal course of business and hence the financial statements have been prepared on a going concern basis.

Auditor’s reported that the assumption of going concern is inter-alia dependent on the Company’s ability to achieve projected results and mitigate the impact of Covid-19 and thus a material uncertainty exists that may cast a significant doubt on the Company’s ability to continue as a going concern.

Questions?

Thank You
