

Forming an Opinion and Audit Conclusions & Going Concern Basis of Accounting

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MEMBER – AASB, ICAI

Is Compliance of **Accounting Standards** Mandatory in preparation of Financial Statements?

Sec. 129 of the Companies Act, 2013

Basic Requirements as to Financial Statements

Give a True & Fair view of the state of affairs of the Company,

Comply with the Accounting Standards notified u/s 133,
and

Be in the form provided in Schedule III.

Items contained in Financial Statements shall be in accordance with the Accounting Standards.

Is Compliance of Auditing Standards Mandatory while doing Company Audits?

Sec. 143(2) of the Companies Act, 2013

Basic Requirements as to Financial Statements

The Auditor shall make the Report after taking into account, the following –

- the provisions of the Act,
- the accounting and auditing Standards,
- matters which are required to be included in the Audit Report under the provisions of the Act / Rules / Order u/s 143(11)
- best of his information and knowledge.

Sec. 143(9)/ (10)

- Sec. 143(9) - Every Auditor shall **comply** with the Auditing Standards.
- Sec.143(10) - The Central Government may prescribe the **Standards of Auditing**, as recommended by the ICAI, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.

Sec. 147(2) - Contravention of Sec.139, 143, 144, 145 by the Auditors

Normal Case:

Fine of Minimum Rs. 25,000 Maximum of Lesser of Rs. 5 lacs or 4 times of Remuneration.

If done knowingly or wilfully, with intention to deceive the Company or its Shareholders or Creditors or Tax Authorities:

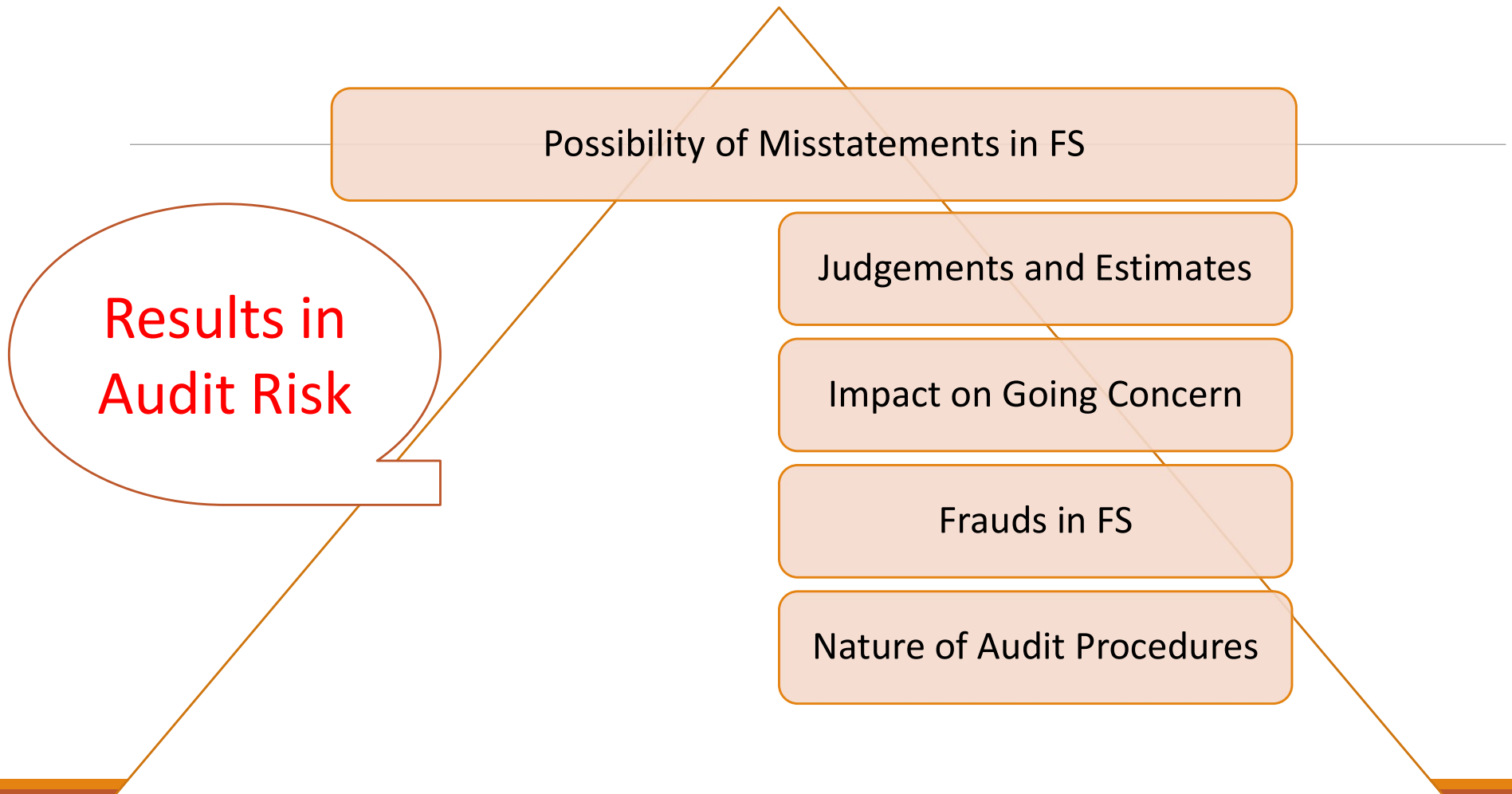
- **Imprisonment of Maximum 1 Year, and**
- Fine of Minimum Rs. 50,000 Maximum of Lesser of Rs. 25 lacs or 8 times of Remuneration

Further Liability of the Auditor:

If the Auditor is convicted u/s 147(2), he shall be liable to –

- **refund the remuneration** received by him to the Company, and
- **pay for damages** to the Company, Statutory Bodies or Authorities or to members or Creditors of the Company for loss arising out of incorrect or misleading statements made in his Audit Report.

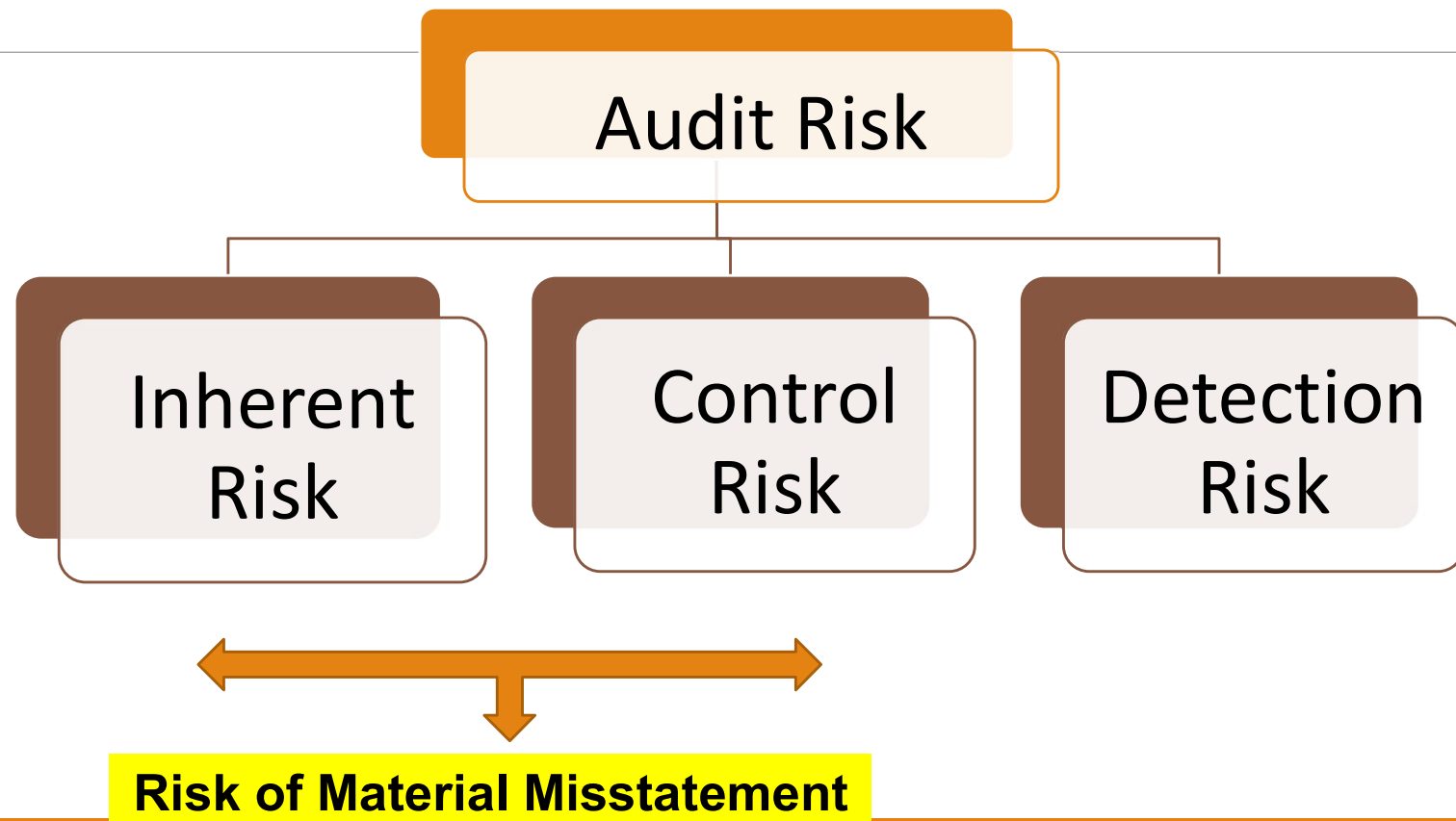
Limitations in Audits





Audit Risk

It is a Risk that Auditor providing an **Inappropriate opinion** on the Financial Statements, when those Financial Statements contain Material Misstatements.



An Audit of Financial Statements

The SAs contain items designed to **support the auditor** in obtaining reasonable assurance.

The SAs **require**, that the auditor exercise professional **judgment and maintain professional skepticism** and **shall**:

1. Identify and assess **risks of material misstatement**, whether due to fraud or error, based on an understanding of the entity and its environment, including the entity's internal control.
2. Obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to **assessed risks**
3. Form an opinion on the financial statements based on conclusions drawn from the audit evidence obtained.

SA	Important SA's Regarding Ensuring Quality and base Work
210	Agreeing The Terms Of Audit Engagements
220	Quality Control for an Audit of Financial Statements
240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
250	Consideration of Laws and Regulations in an Audit of Financial Statements
300	Planning an Audit of Financial Statements
315	Identifying & Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment
320	Materiality in Planning and Performing an Audit
330	The Auditor's Responses to Assessed Risks
450	Evaluation of Misstatements Identified during the Audit
550	Related Parties
570	Reporting on Going Concern
600	Using the Work of Another Auditor
700	Forming an Opinion & Audit Report Format
701-705	Key Audit Matters Reporting - Modifications in Audit Reporting
720	Other Information

SA 700

Forming an Opinion and Reporting on Financial Statements

1. Auditors evaluation for forming and Opinion on the FS

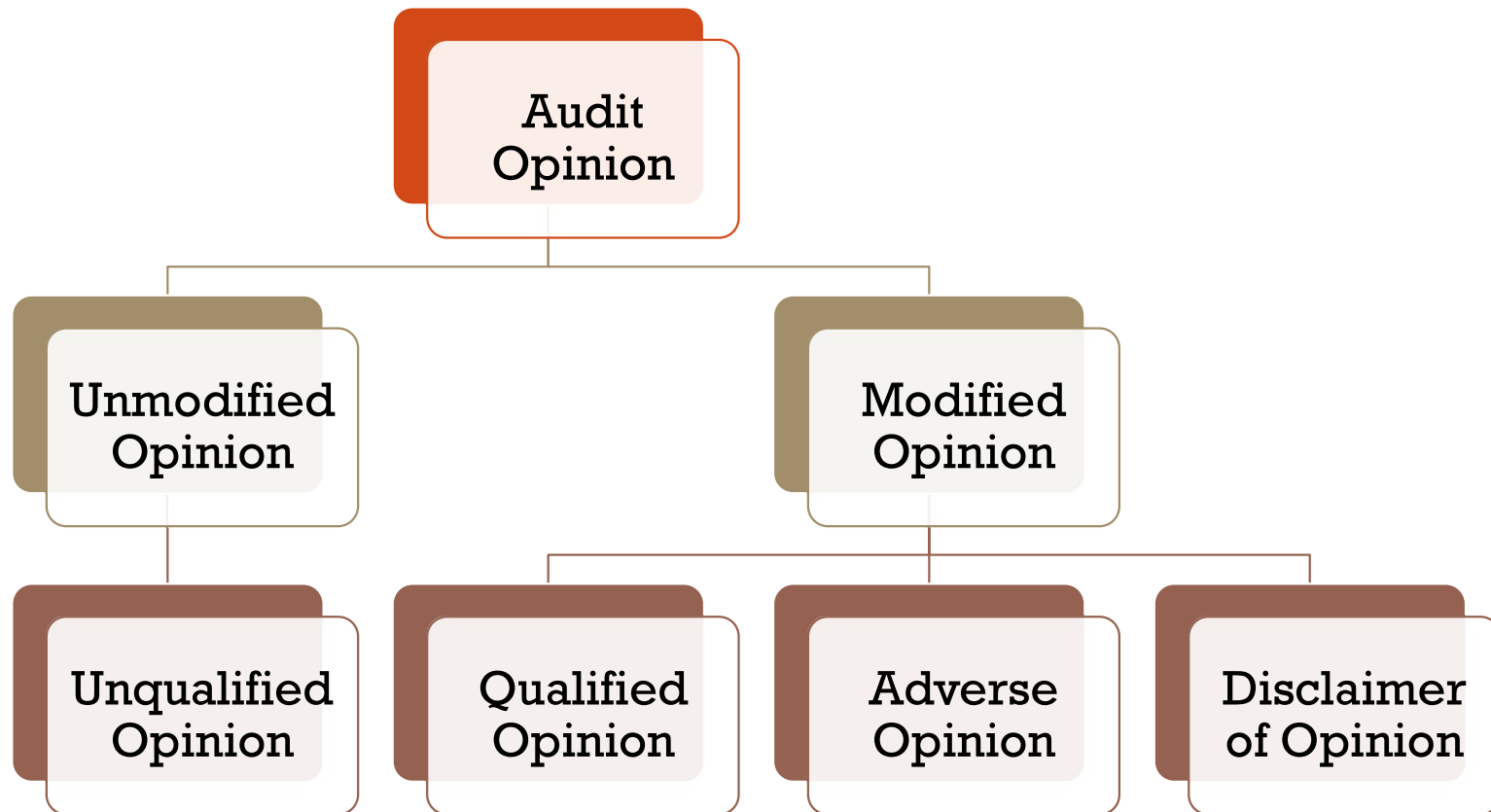
- Financial Statement Evaluation:

- Adequate Disclosure
- Appropriate Accounting policies are selected and applied consistently
- Accounting Estimates are reasonable.
- Information in FS are relevant, reliable

2. Form of Opinion

- Opinion is of 2 types.
- Un-Modified Opinion & Modified Opinion
- Unmodified Opinion – Auditor Concludes that the FS are in all material aspects **are in accordance** with FRF.
- Modified Opinion – Where the auditor does **not conclude** / **Unable to conclude** that the FS are in accordance with FRF.

Audit Opinion:



Elements of Auditor's Report for Audits Conducted in accordance with SA's

1. Title
2. Addressee
3. Opinion (i.e. Auditor's Opinion)
4. Basis for Opinion
5. Going Concern
6. Key Audit Matters
7. Other Information
8. Responsibilities of Management for the Financial Statements
9. Auditor's Responsibilities for the Audit of the Financial Statements
10. Other Reporting Responsibilities
11. Signature of the Auditor
12. Place of Signature
13. Date of the Auditor's Report

Key Audit Matters

From the matters communicated with Those Charged with Governance, the Auditor determines those matters that were of **most significance** in the audit of the Financial Statements of the current period and are therefore the KAM.

1. If FS is not free of Material Misstatement
or
2. If Unable to Obtain Sufficient & Appropriate Audit Evidence

Modified
Opinion

Qualified
Opinion

Adverse
Opinion

Disclaimer of
Opinion

Qualified
Audit
Opinion

The diagram consists of a small orange rectangle at the top, with a white rounded rectangle containing the text 'Qualified Audit Opinion' overlapping its bottom-right corner. A thin vertical line extends from the bottom of this white box to a larger, light brown rounded rectangle below. This larger rectangle contains two numbered conditions for a qualified audit opinion, separated by the word 'or'.

1. After having obtained Sufficient and appropriate audit evidence, concludes that **Misstatements are material, but not pervasive**

or

2. **Unable to Obtain Sufficient appropriate Audit evidence**, but the auditor concludes that the possible effects on FS of undetected misstatements could **be material but not pervasive**.

Misstatement

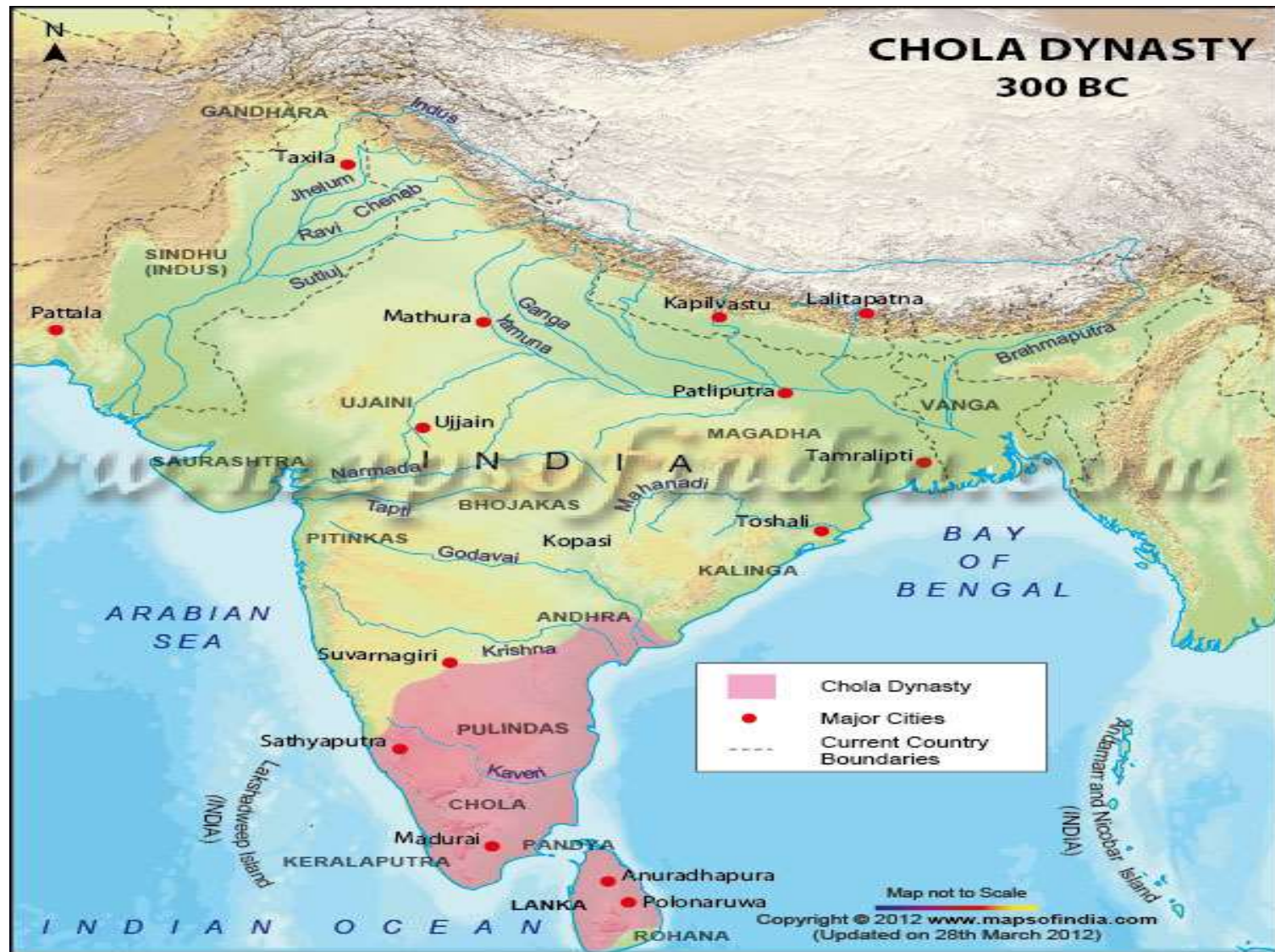
- A difference between the amount, classification, presentation, or disclosure of a **reported financial statement** item and the amount, classification, presentation, or disclosure **that is required for the item** to be in accordance with the applicable financial reporting framework.

Misstatements can arise from error or fraud.

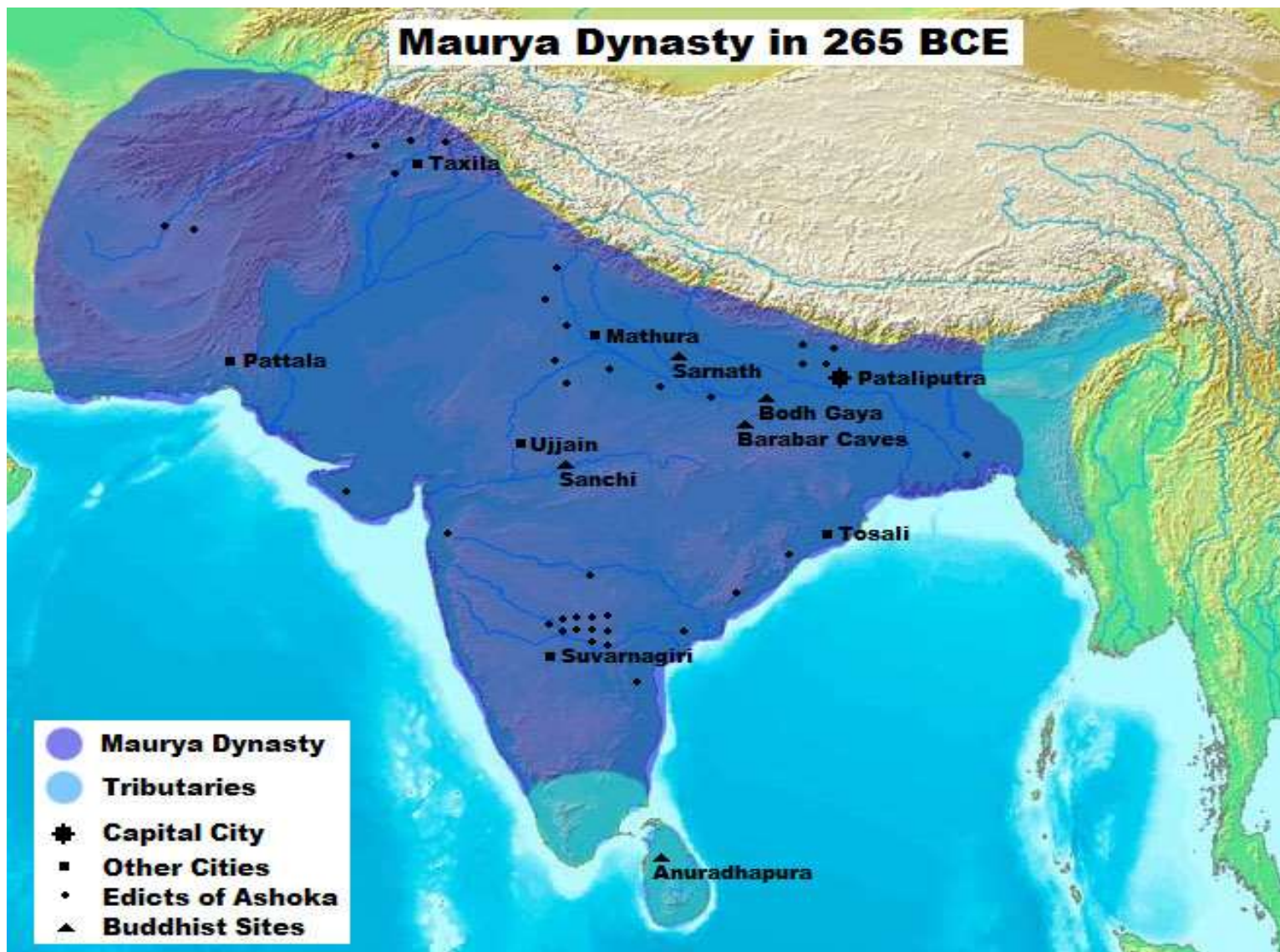
Pervasive

The effect of a material misstatement/possible misstatement is Pervasive, when:

- (a) Where it pertains to an amount in the financial statements, it is not confined to specific components, accounts or items of the financial statements.
- (b) If it is so confined, it represents or could represent a substantial portion of the financial statements; or
- (c) Where it pertains to disclosures, such disclosures or the matter therein are / could be fundamental to the user's understanding of the financial statements.



Maurya Dynasty in 265 BCE



Qualified
Audit
Opinion

The diagram consists of a title box at the top with the text 'Qualified Audit Opinion'. A vertical line connects this box to a larger box below it. This larger box contains two numbered conditions, separated by the word 'or'. The first condition describes a scenario where sufficient evidence is obtained but misstatements are material and not pervasive. The second condition describes a scenario where sufficient evidence is not obtained, but the possible effects of undetected misstatements are material and not pervasive. In both conditions, the key phrases are highlighted in red text.

1. After having obtained Sufficient and appropriate audit evidence, concludes that **Misstatements are material, but not pervasive**

or

2. **Unable to Obtain Sufficient appropriate Audit evidence**, but the auditor concludes that the possible effects on FS of undetected misstatements could **be material but not pervasive**.

Adverse Opinion

After obtaining Sufficient
appropriate Audit
evidence concludes,
Misstatements are
Material and Pervasive to
the Financial Statements

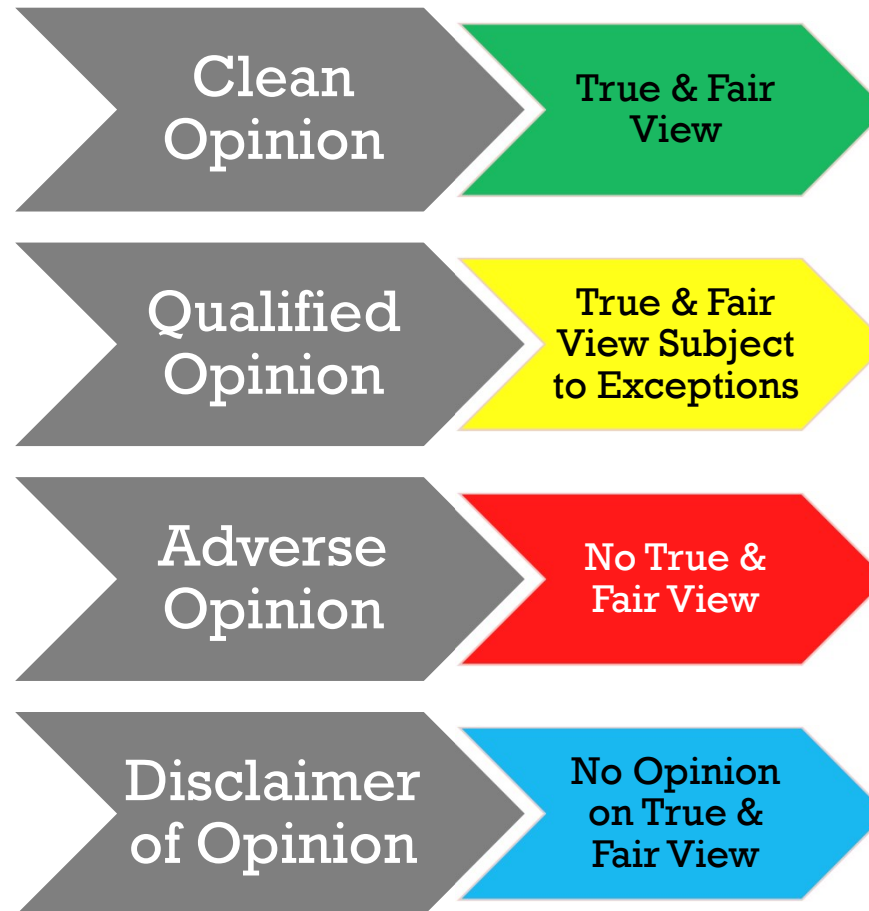
Disclaimer of Opinion

Unable to Obtain Sufficient &
appropriate Audit evidence
to form an Opinion.
Possibility of Misstatement
may be both **Material and**
Pervasive on FS.

Opinion Matrix:

Nature of Matter giving rise to Modification	Auditors Judgement	
	Material but not Pervasive	Material and Pervasive
FS are Materially Misstated	Qualified Opinion	Adverse Opinion
Inability to obtain Sufficient & appropriate Audit evidence	Qualified Opinion	Disclaimer of Opinion

Impact on True & Fair View

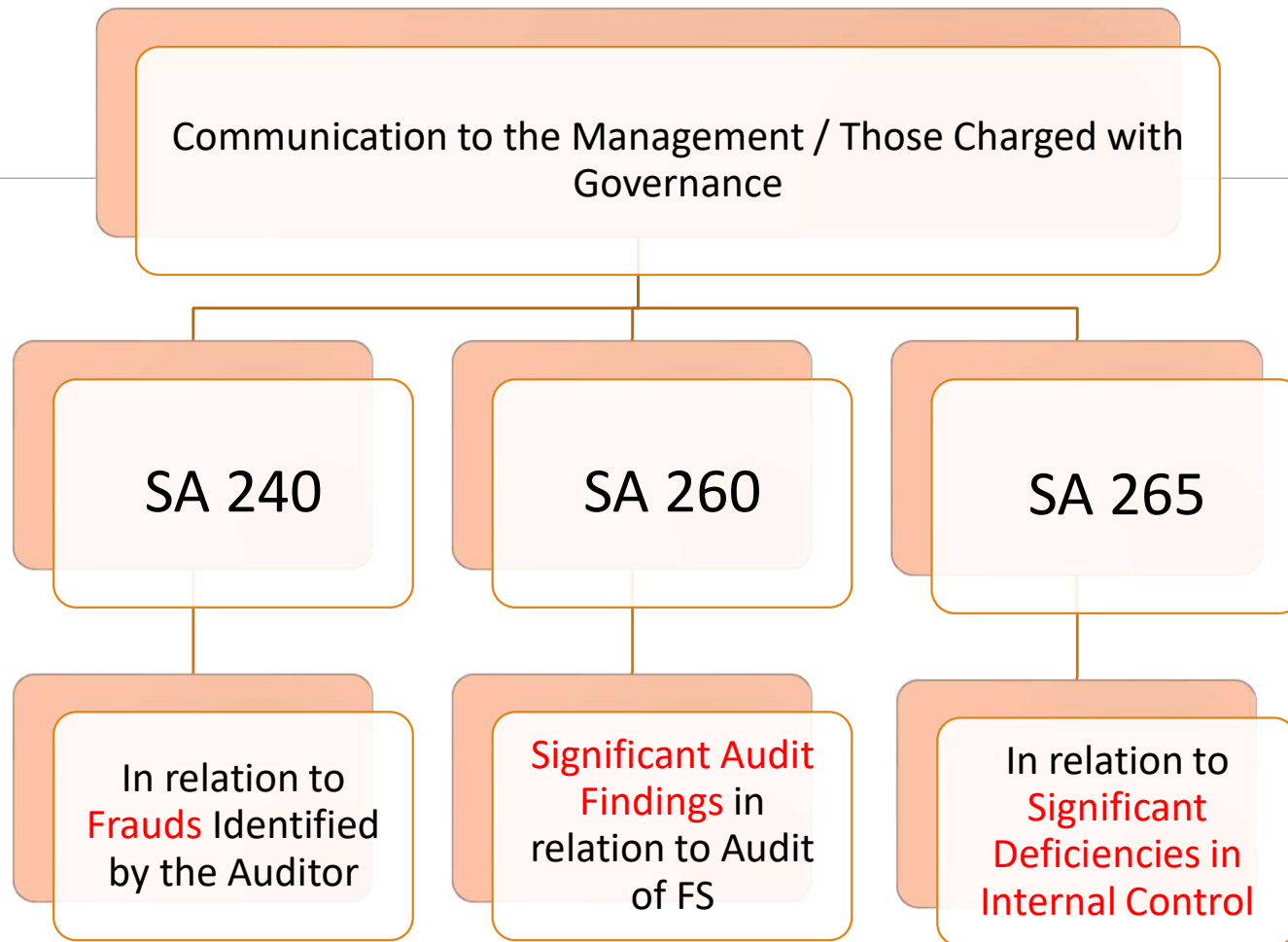


Recent Developments in SA's and Reporting

Elements of Auditor's Report for Audits Conducted in accordance with SA's

1. Title
2. Addressee
3. Opinion (i.e. Auditor's Opinion)
4. Basis for Opinion
5. Going Concern
6. Key Audit Matters
7. Other Information
8. Responsibilities of Management for the Financial Statements
9. Auditor's Responsibilities for the Audit of the Financial Statements
10. Other Reporting Responsibilities
11. Signature of the Auditor
12. Place of Signature
13. Date of the Auditor's Report

Communication to the management by the Auditor:



Component wise Discussion – SA 700

Auditor's Opinion at the beginning

The auditor's opinion is now required to be given at the beginning of the audit report, followed by the Basis for Opinion. **It will give due prominence to this most important element of the auditor's report.**

The users will be able to straightaway read the auditor's opinion without any need to scroll down the entire audit report for searching the auditor's opinion

Basis for Opinion Section

Earlier, the Basis for Opinion section was required only when the auditor's opinion was modified.

Now, this section is required for all auditor's reports whether modified or unmodified.

New affirmative statement about the auditor's fulfillment of independence and other relevant ethical requirements

The Basis for Opinion section also includes 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.

New Reporting on Key Audit Matters

Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period shall be referred as Key Audit Matters (KAM).

As per SA 701, KAM are selected from matters communicated with those charged with governance.

At present SA 701, applies to audits of complete sets of general purpose financial statements of **listed entities** and circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report.

New section on Other Information in the Auditor's Report

A new section on “Other Information” is required to be included in auditor's report, where applicable, in accordance with requirements of SA 720. SA 720 requires this Section in following cases:

Audit of listed entities: The auditor has obtained, or expects to obtain, the other information at the date of the auditor's report

Audit of unlisted corporate entities: The auditor has obtained some or all of the other information at the date of the auditor's report.

Other Information Reporting:

The Company's management and Board of Directors are responsible for the other information.

The other information comprises the information included in the Company's annual report, but does not include the financial statements and our auditors' report thereon. Our opinion on the standalone financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the standalone financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is **materially inconsistent with the standalone financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated**. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. **We have nothing to report in this regard.**

Enhanced Reporting on Going Concern

Material Uncertainty

Going Concern – SA 570 (Revised)

Under the **Going Concern basis of Accounting**, The Financial Statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. (atleast 12 months from the date of FS)

It is considered that the entity has neither the intention nor necessity of liquidation or closure of its business.

Also refer Sec.134(5) – Directors Responsibility Statement

Objective of SA 570

To obtain sufficient appropriate audit evidence regarding and conclude on the **appropriateness** of Management's use of the Going Concern basis of accounting in the preparation and presentation of the Financial Statements,

To conclude, based on the audit evidence obtained, whether a **material uncertainty exists** related to events or conditions that may cast significant doubt on the Entity's ability to continue as a Going Concern, and

To report in accordance with this SA.

Material uncertainty

“Material Uncertainty” means the **uncertainties related to events or conditions** which may cast **significant doubt on the entity’s ability to continue as a going concern that should be disclosed** in the financial statements.

It is also termed as “**significant uncertainty**” is used in similar circumstances.

Reporting Change

Instead of the earlier requirement to report material uncertainties within an **Emphasis of Matter paragraph**, reporting of a material uncertainty is now required to be made within a separate section of auditor's report titled as **“Material Uncertainty related to Going Concern”**.

Jet Airways Audit Report 2017-18

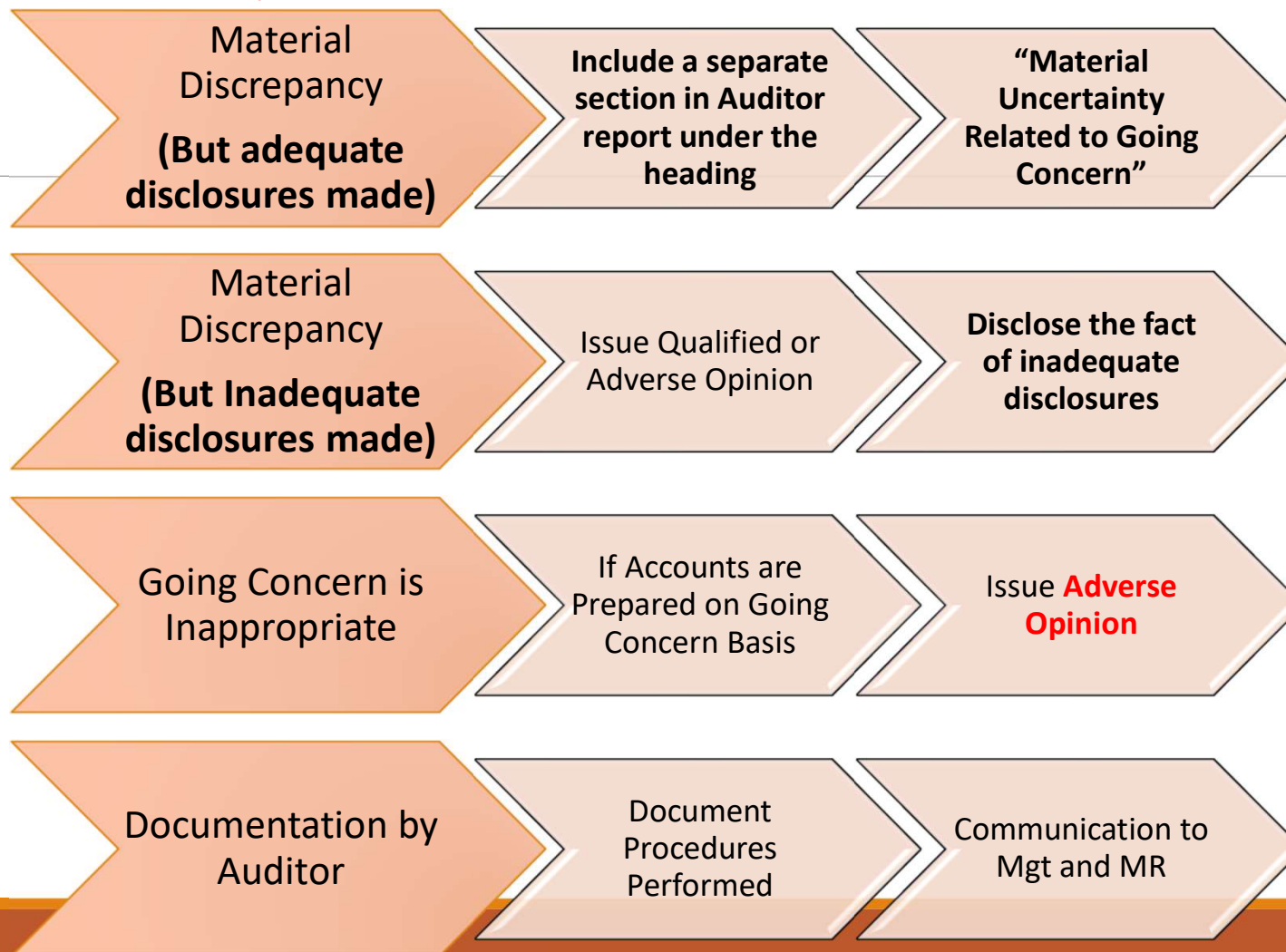
Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone Ind AS financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India of the state of affairs of the Company as at 31 March 2018 and its loss, other comprehensive income, changes in equity and its cash flows for the year ended on that date.

Emphasis of Matter

We draw attention to Note 52 of the standalone Ind AS financial statements regarding preparation of the Ind AS standalone financial statements on going concern basis for the reasons stated therein. The appropriateness of assumption of going concern is dependent upon realization of the various initiatives undertaken by the Company and/or the Company's ability to raise requisite finance/generate cash flows in future to meet its obligations, including financial support to its subsidiary companies.

Auditors Duty: Reporting on Going Concern



Extended reporting under the Section “Management’s responsibilities for the financial statements”

This Section will include the following new aspects:

Management’s responsibilities for assessing the entity’s ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, matters relating to going concern

Identification of those who are responsible for the oversight of the financial reporting process, if those are different from the management

Extended reporting under the Section “Auditor’s responsibilities for the audit of the financial statements

This Section will include the following new aspects:

Statement about reasonable assurance

Statement about the misstatements and materiality judgement

To state that, as part of an audit in accordance with SAs, the auditor exercises professional judgment and maintains professional skepticism throughout the audit.

Describing the auditor’s responsibilities regarding going concern aspect

Thank You!

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