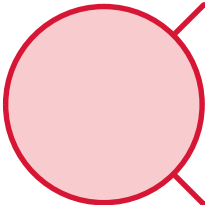


**AUDIT CONCLUSIONS & REPORTING**  
**(SA - 700, 705, 706 & 701**  
**including IMPACT OF COVID-19)**

CA Padmashree Crasto



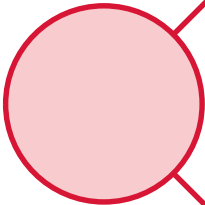
# SCOPE OF SA 700 (Forming an Opinion and Reporting on Financial Statements)



The auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.



Applies to an audit of a complete set of general purpose financial statements



SA 701 deals with the auditor's responsibility to communicate key audit matters in the auditor's report. SA 705 (Revised) and SA 706 (Revised) deal with how the form and content of the auditor's report are affected when the auditor expresses a modified opinion or includes an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor's report. Other SAs also contain reporting requirements that are applicable when issuing an auditor's report.



Applies to audits for which SA 800 or SA 805 apply.

# INDEPENDENT AUDITOR'S REPORT

SA 700, SA 701, SA 705, SA 706, SA 720

## 1

### OPINION

As per SA 700, this paragraph should include the following:

- Reference to the financial statements that have been audited
  - Example: 'We have audited the financial statements of \_\_\_\_\_ ("the Company")'
- Description of the financial statements and the matters they present
  - Example: Balance Sheet, Statement of Profit & loss, Statement of Cash Flows, Statement of Changes in Equity, significant accounting policies and other explanatory information.
- 'Presents fairly, in all material respects' or 'give a true and fair view' - Whether the report is modified or unmodified to be mentioned
  - In case of Qualified / Adverse opinion, this paragraph should state the words 'except for the effects of the matter described in the Basis for Qualified/ Adverse Opinion section of our report'
  - In case Disclaimer of Opinion, this paragraph should state as following - 'We do not express an opinion on the accompanying financial statements of the entity. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements'
- Description of the applicable financial reporting framework and how it may affect the auditor's opinion
  - Example: Accounting principles generally accepted in India

# INDEPENDENT AUDITOR'S REPORT

SA 700, SA 701, SA 705, SA 706, SA 720

## 2 BASIS OF OPINION

This paragraph should include the following:

- Reference to Standards on Auditing - to convey to the users that the audit has been conducted in accordance with established standards
- Relevant Ethical Requirements - Reference to the Code of Ethics issued by ICAI or to the ethical requirements prevalent in the respective jurisdiction
- Whether sufficient and appropriate audit evidence is obtained to support Auditor's Opinion

## 3 MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

As per SA 570 - This paragraph should state whether the auditor has obtained audit evidence to conclude whether material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern

Example 1: Company has incurred net losses

Example 2: Company's accumulated loss has fully eroded the net worth of the Company.

Example 3: Company's net current assets have exceeded the current liabilities

The audit evidence to support the going concern assumption would be support letter received from the Ultimate Holding Company for continued financial support, improvement measures taken by the Company for revival of its business.

# INDEPENDENT AUDITOR'S REPORT (CONTINUED)

SA 700, SA 701, SA 705, SA 706, SA 720

## 4 EMPHASIS OF MATTER

As per SA 706 - It is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements

## 5 KEY AUDIT MATTER

As per SA 701 - It is applicable only in case of listed entities, in circumstances when the auditor otherwise decides to communicate KAM or auditor is required by law or regulation to communicate KAM. It shall include:

- Why the matter was considered to be one of most significant in the audit and therefore a KAM
- How the matter was addressed

# INDEPENDENT AUDITOR'S REPORT (CONTINUED)

SA 700, SA 701, SA 705, SA 706, SA 720

## 6 INFORMATION OTHER THAN FINANCIAL STATEMENTS

As per SA 720 - The objective of this paragraph is to consider whether there are any material inconsistency between other information and the financial statements, auditor's knowledge obtained in the audit and to respond appropriately in case such inconsistency is observed

Scenario 1 - In case there is only one qualification in the audit report, description of the single qualification has to be mentioned

Scenario 2 - In case there are more than one qualifications, following para to be mentioned - 'The other information included in the Director's Report have not been adjusted for the impacts of non-compliance with certain laws and regulations as described in the Basis for Qualified section above. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter'

## 7 RESPONSIBILITY OF MANAGEMENT & TCWG

This paragraph should include reference to Management's Responsibilities for:

- Preparation of financial statements in accordance with the applicable financial reporting framework along with the fair presentation
- Internal controls as it determines is necessary to enable the preparation of financial statement that are free from material misstatement, whether due to fraud or error
- Assessment of Company's ability to continue as going concern
- Oversight of the financial reporting process
- Example: In case the financials are prepared on liquidation basis, the fact to be mentioned

# INDEPENDENT AUDITOR'S REPORT (CONTINUED)

SA 700, SA 701, SA 705, SA 706, SA 720

## 8 AUDITOR'S RESPONSIBILITIES

A Separate annexure is given for the Auditor's Responsibility paragraph. This paragraph should include:

- Objectives of the auditor
- Responsibility w.r.t Internal Financial Controls
- Appropriateness of accounting estimates and related party disclosures made by Management
- Appropriateness of Going Concern assumption by Management
- Fair presentation of the financial statements including disclosures
- Auditor's responsibilities relating to SA 701

## 9 OTHER MATTER

As per SA 706 - It is a paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Example 1 - In case the subsidiary's financial statement are not audited by us, the fact to be mentioned along with any qualification mentioned in subsidiary's report.

Example 2 - In case of Ind AS transition, the fact to be mentioned along with the fact whether the transition adjustments have been audited by our firm, or other auditors.

# INDEPENDENT AUDITOR'S REPORT (CONTINUED)

SA 700, SA 701, SA 705, SA 706, SA 720

## 10 OTHER LEGAL & REGULATORY REQUIREMENTS

This paragraph should include the following:

- Reference to CARO Report
- Reporting required under section 143(3) of the Companies Act, 2013. It shall include reporting on the following:
  - Whether information and explanation have been obtained for the purpose of audit
  - Whether proper books of accounts have been maintained by the Company, including the returns of the branches not visited by us
  - Whether the report of the branches have been properly dealt with by the Auditors
  - Whether the Balance sheet, Statement of Profit & Loss, Cash Flow Statement are in agreement with the books of accounts
  - Compliance with Section 133 of Companies Act, 2013
  - Written Representation from Directors w.r.t. Director disqualification u/s 164(2) of Companies Act, 2013
  - Reference to Internal Financial Controls report
  - Disclosure of pending litigation in the financial statements
  - Provision for material foreseeable losses on long term contracts including derivative contracts
  - Transfer of amount to Investor Education & Protection Fund by the Company
- Compliance w.r.t Section 197 of the Companies Act, 2013



# INDEPENDENT AUDITOR'S REPORT (CONTINUED)

SA 700, SA 701, SA 705, SA 706, SA 720

11

## Signature

- The auditor's report shall be signed. The report is signed by the auditor (i.e. the engagement partner) in his personal name. Where the firm is appointed as the auditor, the report is signed in the personal name of the auditor and in the name of the audit firm. The partner/proprietor signing the audit report also needs to mention the membership number assigned by the Institute of Chartered Accountants of India. They also include the registration number of the firm, wherever applicable, as allotted by ICAI, in the audit reports signed by them
- The auditor's report shall name specific location, which is ordinarily the city where the audit report is signed. 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

### **UDIN:**

Applicable to all certificates, audit reports, limited review reports or any kind of report which is attested by a CA.

UDIN is required to be generated at the time of signing of certificate / report. However, it can be generated within 15 days of signing of the same.

# TYPES OF MODIFIED OPINIONS - SA 705 (CONTINUED)

The table below illustrates how the auditor’s judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed.

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

# QUALIFIED OPINION - SA 705

When is  
Qualified  
Opinion to  
be issued?

1. The auditor concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements
2. 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

## POINTS TO BE REMEMBERED

- Material misstatement may arise when the selected accounting policies are not consistent with the applicable financial reporting framework or the financial statements (including the notes) do not represent the underlying transactions and events in a manner that achieves fair presentation
- The auditor may be unable to obtain sufficient appropriate audit evidence due to multiple factors which include circumstances beyond the control of the entity, circumstances relating to the nature or timing of the auditor's work, limitations imposed by Management etc

# EMPHASIS OF MATTER (EOM) - SA 706

When is EOM  
to be  
reported ?

If the auditor considers it necessary to draw user's attention to a matter presented or disclosed in the financial statement that, in the auditor's judgement is of such importance that is fundamental to user's understanding of the Financial Statement

## POINTS TO BE REMEMBERED

- Giving an EOM paragraph does not tantamount to modified opinion as per SA 705
- EOM cannot be a substitute to Key Audit Matter / Modified Opinion/ Reporting under SA570
- A separate paragraph with heading as 'Emphasis of Matter' is to be included
- A clear reference to the matter being emphasized and where relevant disclosures that fully describe the matter in the financial statements is to be mentioned
- Indicate that auditor's opinion is not modified in respect of the matter emphasized

# EMPHASIS OF MATTER (EOM) - SA 706 (CONTINUED)

## CIRCUMSTANCES IN WHICH EOM PARAGRAPH MAY BE NECESSARY

- Matter would be unacceptable but it is prescribed by law or regulation
- To alert the users that Financial Statements are prepared used special purpose framework
- A significant subsequent event that has occurred between the date of financial statements and date of auditor's report
- An uncertainty relating to the future outcome of exceptional litigation or regulatory action
- Early application (where permitted) of a new accounting standard that has a material effect on the financial statement
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position

# OTHER MATTER (OM) - SA 706

When is OM  
to be  
reported ?

If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an Other Matter paragraph in the auditor's report

## POINTS TO BE REMEMBERED

- This is not prohibited by law or regulation.
- OM cannot be a substitute to Key Audit Matter / Modified Opinion/ Reporting under SA 570
- A separate paragraph with heading as 'Other Matter' is to be included
- Indicate that auditor's opinion is not modified in respect of the matter.

# ADVERSE OPINION - SA 705

When is  
Adverse  
Opinion to be  
reported ?

1. The auditor concludes that misstatements, individually or in the aggregate, are both material and pervasive, to the financial statements.

## POINTS TO BE REMEMBERED

- When the auditor considers it necessary to express an adverse 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.
- A separate paragraph with heading as 'Adverse Opinion' is to be included.
- The auditor shall state: (a) When reporting in accordance with a fair presentation framework, the accompanying financial statements do not present fairly (or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework]; or (b) When reporting in accordance with a compliance framework, the accompanying financial statements have not been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

# DISCLAIMER OF OPINION - SA 705

**When is  
Disclaimer of  
Opinion to be  
reported ?**

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.

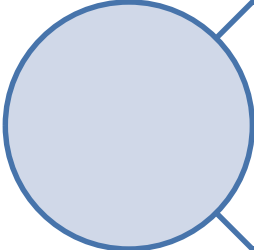
## POINTS TO BE REMEMBERED

- If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:
- When the auditor considers it necessary to express a disclaimer of 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.
- A separate paragraph with heading as 'Disclaimer of Opinion' is to be included.

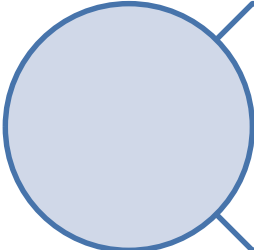


## DISCLAIMER OF OPINION - SA 705 (CONTINUED)

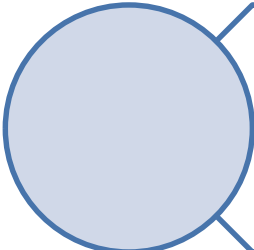
When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall:



(a) State that the auditor does not express an opinion on the accompanying financial statements;

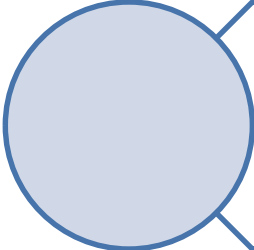


(b) State that, because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and

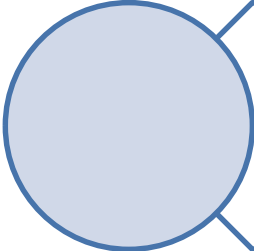


(c) Amend the statement required by paragraph 24(b) of SA 700 (Revised), which indicates that the financial statements have been audited, to state that the auditor was engaged to audit the financial statements.

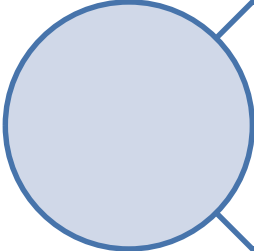
# INTERNAL FINANCIAL CONTROL - Chapter X, clause (i) of Section 143(3) of Companies Act, 2013



(i) whether the company has internal financial controls with reference to financial statements in place and the operating effectiveness of such controls



IFC is not applicable to Private company subject to following conditions: (i) which is a one-person company or a small company; or (ii) which has turnover less than rupees fifty crores as per latest audited financial \*statement or and which has aggregate borrowings from banks or financial institutions or any body corporate at any point of time during the financial year less than rupees twenty-five crore



The above exemption is only applicable when private company has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the ROC.

# CARO 2020

Applicable for all statutory audits commencing on or after 1 April 2021 corresponding to the financial year 2020-21.

Accordingly, the order applies to all the companies except the following companies:

- One person company
- Small companies
- Banking companies
- Companies registered for charitable purposes
- Insurance companies
- Private companies : Gross receipts or revenue (including revenue from discontinuing operations)  $\leq$  Rs 10 crore in the financial year, Paid up share capital plus reserves  $\leq$  Rs 1 crore as on the balance sheet date, Not a holding or subsidiary of a Public company, Borrowings  $\leq$  Rs 1 crore at any time during the FY
- Order shall not apply to the auditor's report on the consolidated financial statements except one specific clause (related to Qualification/Adverse remarks in CARO in the audit report of components which are consolidated in the CFS, will be required to be reported).

# DRAFTING AN AUDITOR'S REPORT

## KEY OBSERVATIONS

### Opinion

The Heading of Opinion paragraph should be mentioned as per the Opinion issued. For example: In case, qualified opinion is issued, then then heading should be "Qualified Opinion"

The views / steps taken by the Management are not to be mentioned in the modified opinion paragraph.

### Basis of Opinion

### Material Uncertainty w.r.t Going Concern

1. As per revised SA 570, a separate paragraph has to be mentioned for Material Uncertainty Related to Going Concern instead of an EOM
2. It is recommended to mention the reasons why the Auditor has concluded that there is no issue with the Going Concern Issue. However, material uncertainty still persists

1. Audit team to follow the requirements as per SA 701 which includes reference to notes in the financials, appropriate heading, issues involved, audit steps performed.
2. The matter involved should be Key Audit Matter for the respective Company and should not be reported only because other Companies have made such disclosures

### Key Audit Matter

# DRAFTING AN AUDITOR'S REPORT

## KEY OBSERVATIONS

### Other Information

1. The documents which are construed as Other Information as per SA 720 is to be listed in the Auditor's report
2. Separate Guidance has been circulated for paragraphs to be mentioned in case of Private Companies
3. Only if the modification of the auditor's report has an effect on the Other Information, the same has to be mentioned in this paragraph

In case there are Going Concern issues in the Company i.e. the Financial Statements are prepared on liquidation basis the same has to be mentioned in this paragraph

### Management Responsibilities

### Other Legal & Regulatory Requirements

1. In case the auditor's report is modified, appropriate changes have to be made in the standard format. Guidance for the same has been mentioned in the standard format
2. Proper references have to be mentioned for the CARO Report and report on Internal Financial Control Reporting

1. UDIN has to be mentioned in case of all Audit Reports
2. The Title and addressee to be appropriate
3. The signing block should be of the entity under which the Auditor's report is issued
4. Partner's Membership Number, Date, Stamp of the Firm to be rechecked

### General

A close-up photograph of a magnifying glass with a silver metal frame and a black handle, resting on a polished wooden surface. The lens is slightly tilted, and the background is softly blurred, showing vertical lines of light and shadow, possibly from a window or a bookshelf. The overall tone is warm and professional.

**SA 701 - COMMUNICATING KEY AUDIT  
MATTERS IN THE  
INDEPENDENT AUDITOR'S REPORT**

# SA 701

## Introduction

- Definition of KAM

- A step by step approach to determining KAM

- Factors to consider at each stage of the process

- Examples of typical KAMs

- Other KAM considerations

# SA 701

## Definition of KAM

### 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. Key audit matters are selected from matters communicated with those charged with governance.

### Effective date :

This SA - 701 is effective for audits of financial statements for periods beginning on or after  
April 1, 2018



# SA 701

## SA Requirements for Communication KAM

The requirement to communicate Key Audit Matters (KAM) in the auditor's report stems with intention to enhance the value of the auditor's report to users by providing greater transparency about the audit that has been performed. The factors that led to the creation of SA 701, also included:

- Establishing a focus on how the KAM affected the auditor's approach to the audit. Particularly those matters that 'kept the auditor awake at night'.
- Providing for increased focus by management and those charged with governance on their understanding of the entity, related disclosures and those areas that have significant management judgment attached to them, and
- Encouraging greater engagement between intended users of the financial statements, management and those charged with governance.

# SA 701

## SA Requirements for Communication KAM

### Para 11 of SA 701

The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters," unless the circumstances in paragraphs 14 or 15 apply.

The introductory language in this section of the auditor's report shall state that: (a) Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements [of the current period]; and

These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.

# SA 701

## SA Requirements for Communication KAM

### Para 13 of SA 701

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.

# SA 701

## SA Requirements for Communication KAM

### Para 14 of SA 701

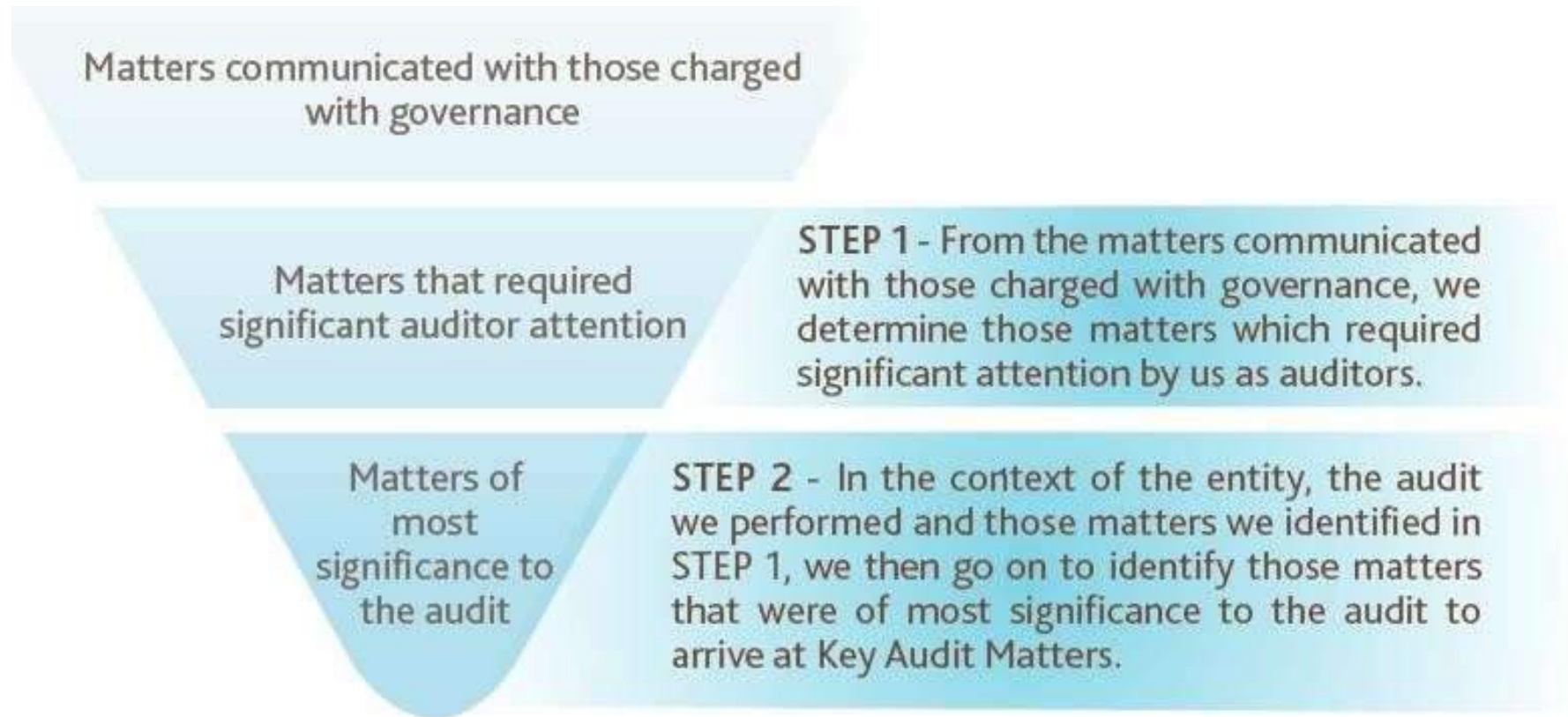
The auditor shall describe each key audit matter in the auditor's report unless:

- a) Law or regulation precludes public disclosure about the matter; or
- b) In extremely rare circumstances, the auditor determines that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. This shall not apply if the entity has publicly disclosed information about the matter.

*Interaction between Descriptions of Key Audit Matters and Other Elements Required to Be Included in the Auditor's Report*

# SA 701

A step by step approach to determining KAM



# SA 701

## Factors to consider at each stage of the process

Decision Stage	Factors to Consider
Matters communicated with those charged with governance	<p>A number of ISAs include requirements that determine the nature, extent and timing of matters to be communicated to those charged with governance.</p> <p>In addition to the requirements outlined in SA 260 - Communication with Those Charged with Governance, Appendix 1 to SA 260 outlines 15 additional SAs (and ISQC 1) which also have communication requirements.</p>

# SA 701

## Factors to consider at each stage of the process

Decision Stage	Factors to Consider
STEP 1 Matters that required significant auditor attention	<p>SA 701 requires engagement teams to take into account three specific types of matters:</p> <ul style="list-style-type: none"><li>a) Areas of higher assessed risk of material misstatement or significant risks identified in accordance with SA 315</li><li>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.</li><li>c) Significant events or transactions that occurred during the period that had a significant effect on the audit.</li></ul>

# SA 701

## Factors to consider at each stage of the process

Decision Stage	Factors to Consider
<p>STEP 2</p> <p>Matters of most significance to the audit</p>	<p>Factors for consideration when determining those matters that in the judgment of the engagement team were of most significance to the audit may include:</p> <ul style="list-style-type: none"><li data-bbox="680 711 1850 898">• Significance of interactions between engagement teams, management and TOCWG (for example, this might include those matters which required in-depth, frequent or robust discussions).</li><li data-bbox="680 967 1881 1105">• Importance of the matter to understanding the financial statements as a whole (particularly the impact on investors' and other users' understanding).</li><li data-bbox="680 1175 1220 1211">• Materiality of the matter.</li><li data-bbox="680 1281 1656 1360">• Nature and extent of corrected and uncorrected misstatements associated with the matter.</li></ul>

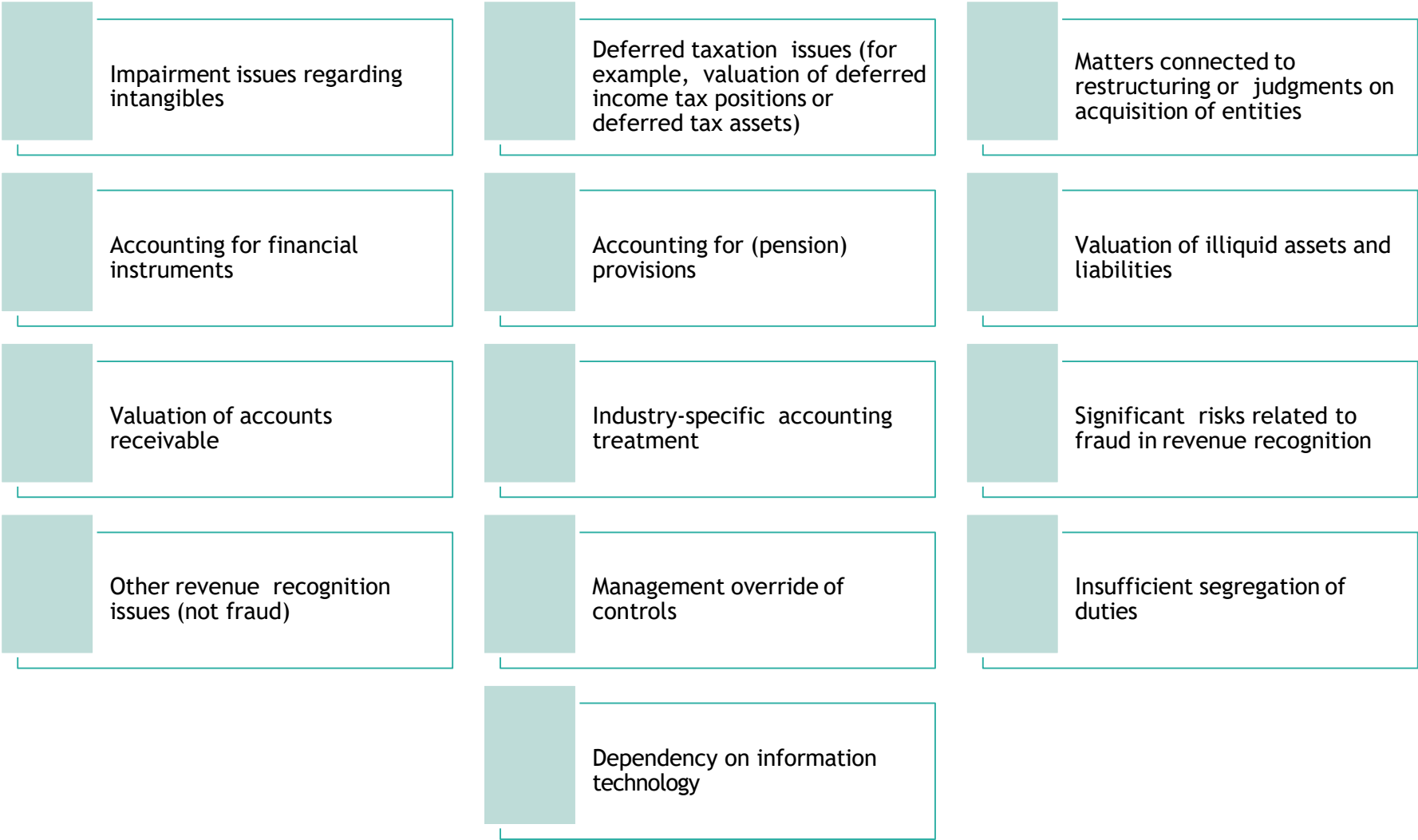


# SA 701

## Factors to consider at each stage of the process



Decision Stage	Factors to Consider
STEP 2 Matters of most significance to the audit	<ul style="list-style-type: none"><li>• Complexity of the accounting policy</li><li>• Nature and extent of audit effort undertaken by an engagement team to address a particular matter</li><li>• Difficulty of performing our audit procedures, including:<ul style="list-style-type: none"><li>○ obtaining sufficient appropriate audit evidence</li><li>○ evaluating the results of our audit procedures</li><li>○ challenging subjective judgments.</li></ul></li><li>• Existence of severe control deficiencies related to the matter.</li><li>• Matters with multiple audit implications</li></ul>

# SA 701 - EXAMPLES OF TYPICAL KAMS



# SA 701

## Other KAM considerations

Identified KAM are... 	Identified KAM are NOT... 
<ul style="list-style-type: none"><li>• ...<b>specific</b> to the nature and activities of our client</li></ul>	<ul style="list-style-type: none"><li>• ...<b>boilerplate</b> descriptions</li></ul>
<ul style="list-style-type: none"><li>• ...<b>relevant</b> and meaningful to users</li></ul>	<ul style="list-style-type: none"><li>• ...a <b>discrete opinion</b> for each KAM, or a <b>substitute</b> for a <b>modified opinion</b> or financial statement <b>disclosures</b></li></ul>
<ul style="list-style-type: none"><li>• ...considered from the <b>planning stage</b> onwards<sup>4</sup></li></ul>	<ul style="list-style-type: none"><li>• ...a substitute for reporting a <b>material uncertainty related to going concern</b> in the auditor's report</li></ul>
	<ul style="list-style-type: none"><li>• ...matters <b>unresolved</b> by the auditor</li></ul>

# SA 701

## KAM Writing

Each KAM description must always include :

Step	ISA requirement	Our thought process	Example of KAM content for inclusion in the auditor's report
<b>A</b>	What is the description of the Key Audit Matter?	Statement of fact (usually this will include the title of the KAM)	<i>Impairment of Loans and Investments. The Group's impairment charge represented €67.8 million for the year ending 31 March 2017.</i>
<b>B</b>	Why did the audit focus on this matter?	Explaining our rationale for determining the matter to be one of most significance in our audit  (this is a more subjective statement and is based on our professional judgment)	<i>The identification of impairment events and the determination of an impairment charge require the application of significant judgment by management, in particular with respect to the timing, quantity and estimation of future cash flows.</i>
<b>C</b>	What is the reference to the related disclosure?	Statement of fact (this is objective)	<i>See note 7 to the financial statements. The Group's impairment accounting policy is disclosed in note 4 to the financial statements.</i>

# SA 701

## KAM Writing

### Illustrative audit key matter :

A

What is the description of the Key Audit Matter?

B

Why did the audit focus on this matter?

#### RISK IDENTIFIED

#### Taxation claims

As detailed in notes 3 and 19, the group's Malian operations are subject to historic taxation claims by the State of Mali totalling \$280.0 million. No new claims were made by the State of Mali in the year.

The group has taken professional advice with regards to the claims and commenced international arbitration proceedings during 2013 against the State of Mali, which remain ongoing, disputing the validity of certain of the claims. Given the material nature of the claims and ongoing nature of the disputes and international arbitration proceedings, the recognition and presentation of any liabilities or contingent liabilities arising as a result of the taxation claims represent key judgements and was a risk for our audit.

C

What is the reference to the related disclosure?

# SA 701

## KAM Writing

### Other considerations when writing KAM :

Examples of auditor reporting innovations in the context of KAM have included:

- KAM presented using tabular formats
- KAM displayed using graphical approaches (for example year on year comparisons)
- KAM categorised as being either 'recurring' or 'event-driven' risks
- Audit firms disclosing in the KAM section what and how these matters have been reported to the audit committee/ those charged with governance.

# SA 701

## Documentation of KAM :

The SA requires that certain considerations are documented - in line with SA 230, *Audit Documentation*.

Specifically, we have to document:

Our rationale for why we determined that certain matters were KAM, or

If applicable, why we determined there were no KAM, or

If applicable, our rationale for not communicating in the auditor's report a matter that we had determined to be a KAM.

# SA 701

## FAQs

### 1. Which audits is it mandatory to

- Audit of Complete set of General Purpose FS.

### 2, Date of Applicability

- Date of Audit report after April 1, 2018 pertaining to FS for period beginning after April 1, 2018.

### 3. Applicability to Interim Financial Statements (LR)

- NA

### 4. Applicability to Tax FS

- No

### 5. Applicability to listed companies

- Listed status - on reporting date
- Delisted during the year - NA
- Under the listing process - NA
- Securities listed outside India - Applicable

### 6. Applicability to different type of opinion :

- Disclaimer of opinion - PROHIBITED
- Qualified opinion - Applicable
- Adverse opinion - Applicable
- EOM - Applicable (Not a substitute to KAM)



# SA 701

## FAQs

### 7. If no disclosure w.r.t. KAM in FS

- Does not relieve auditor from requirement

### 8. Whether can be different for different years

- Unlikely would be entirely different

### 9. Different entities in same industry

- Possible to have different KAM

### 10. All matters communicated to TCWG = KAM

- No, to be individually evaluated

### 11. No KAM

- Yes possible - Disclose the fact

### 12. Only qualification

- Yes possible - Disclose the fact

### 13. Going Concern = KAM

- No - Material uncertainty para

### 14. Order of KAM

- No specific order

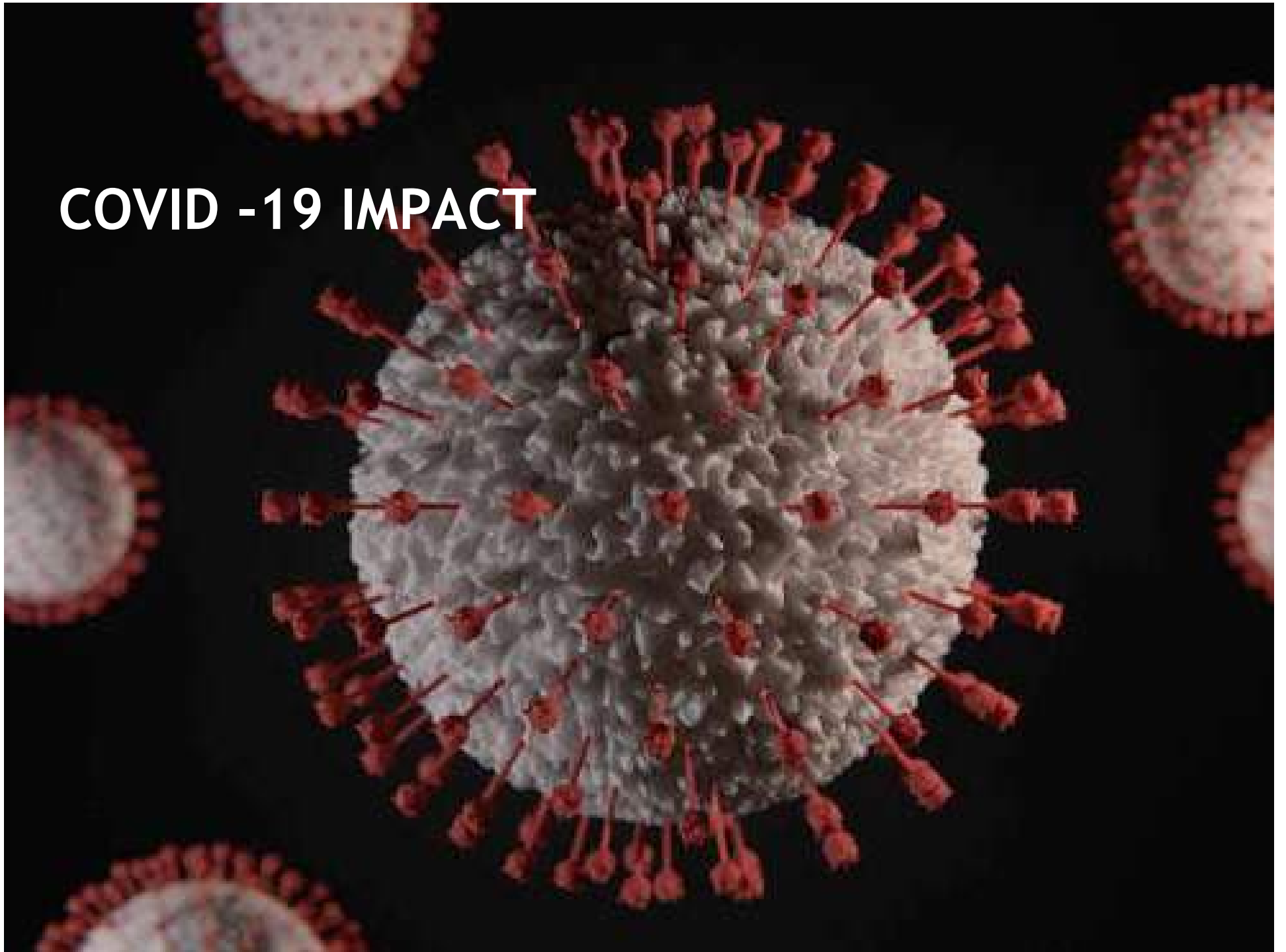
### 15. Consol FS

- Parent + Components

### 16. Joint Audit

- Each auditor on their area & Collectively

# COVID -19 IMPACT



# COVID - 19 IMPACT

As per SA 700(Revised), “Forming an Opinion and Reporting on Financial Statements” stipulates that the date of the auditor’s report informs the user of the auditor’s report that the auditor has considered the effects of events and transactions of which the auditor becomes aware and that occurred up to that date. Therefore, it is important for the auditor to obtain an understanding of subsequent events and how these have been dealt with in the financial statements.

# AUDITOR'S RESPONSIBILITIES

Auditors are required to perform procedures that all events requiring adjustment of, or disclosure in, the FS, occurring between the date of the FS and the date of the auditor's report, have been identified and appropriately reflected in the FS in accordance with the applicable financial reporting framework

In undertaking work to be responsive to the auditor's risk assessment pertaining to subsequent events, the auditor considers management's adjustments or disclosures, including the timelines used to distinguish between adjusting and non-adjusting events.

It is important to consider COVID-19 as a factor in an entity's analysis of estimates required in the FS, including, but not limited to, estimates related to:

expected credit loss,

inventory obsolescence,

impairment analyses,

variable and contingent compensation etc.

Therefore, judgment needs to be applied to determine whether the conditions existed at the date of the FS or not.

# IMPACT ON THE AUDITOR'S REPORT

Based on the results of the audit procedures performed, the auditor determines that the financial statements are materially misstated, or is unable to obtain SAAE to determine whether the financial statements are materially misstated, a modification to the opinion in the auditor's report is required.



This SA provides detailed guidance with regard to amending the auditor's report or providing a new / amended auditor's report in certain specific situations. (as discussed earlier)



If the auditor is able to obtain SAAE about subsequent events, he may or may not consider it appropriate to identify the subsequent event as a Key Audit Matter or he may or may not determine it to be necessary to draw users' attention to the subsequent event through inclusion of an Emphasis of Matter paragraph or Other Matter paragraph.



If the entity is disclosing in their subsequent events disclosures that an estimate of impact cannot be made due to the evolving situation, this may result in a material uncertainty on going concern within the audit report.

# GOING CONCERN AND SUBSEQUENT EVENTS

**Maintain Professional skepticism & consider whether SAA available to be able to assess**

Impact on the business operations/ revenues/ cash flows etc. of the entity for the year  
appropriateness of the use of going concern basis of accounting / existence of material uncertainty related to going concern

Appropriate disclosures made in the FS regarding the impact & management's assessment

**Assessment of Subsequent events**

Decisions taken to continue the business / closure of business

Major decisions of retrenchment etc.,

Assess whether these are adjusting / non-adjusting events and impact accordingly

**Considering above factor auditor should evaluate possible impact on audit report**

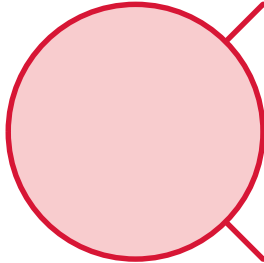
Modification of auditor opinion (SA 705) - Inadequate disclosure/ improper accounting/ unable to obtain sufficient & appropriate audit evidence

Emphasis of matter paragraph (SA 706) - To refer to a matter appropriately presented in the FS

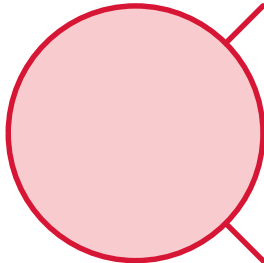
Key Audit Matter (SA 701) - Most significant matters communicated to TCWG

**Apart from this auditor should also consider impact on reporting under various clauses of CARO as well as reporting on Internal Financial Controls over Financial Reporting.**

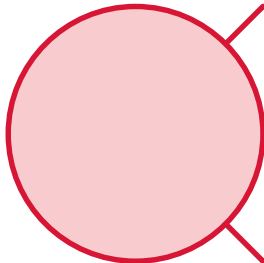
# COVID - 19 IMPACT



Due to COVID -19 there could have an impact on the assumption relating to going concern. For some entities, the impact could be severe and may leave management with no realistic alternative but to liquidate or cease operations. There could also be entities which may have to scale down their operations while impact may not be significant for other entities



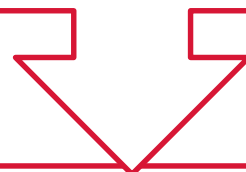
It is the responsibility of management to make the assessment as to whether the entity is a going concern.



The auditor will only be able to form a conclusion relating to going concern once management has made its own assessment.

# COVID - 19 IMPACT

Going Concern Assessment is critically important auditor will need to consider whether the threat to liquidity as a result of supply/demand disruption presents a material uncertainty to the going concern status for the 12 months look forward period. SA 570(Revised) also requires auditors to consider events that may cast significant doubt on the entity's ability to continue as a going concern beyond the period of management's assessment.



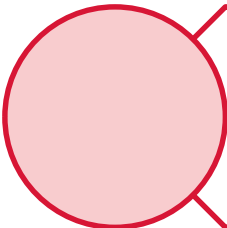
Audit teams should robustly assess the going concern and viability risks relating to COVID-19 threat in compliance with SA 570(Revised). This includes:

Evaluating whether there is adequate support for the assumptions underlying management's assessment and

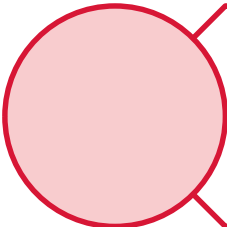
The consistency of these assumptions across the entity's business activities.



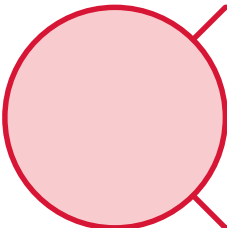
# AUDITOR'S RESPONSIBILITY



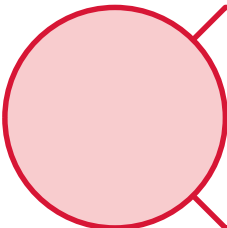
Perform additional audit procedures to evaluate management's assessment which involve, evaluation of reliability of cash flow forecast prepared by the management considering change in economic environment, management's plan for future actions and assessing its feasibility in the circumstances.



Maintain regular and effective communication with TCWG regarding identification of events or conditions which constitute material uncertainty, appropriateness of management's use of going concern, adequacy of related disclosures in the financial statements and implications on the auditor's report, wherever applicable.




Auditors might need to critically analyse the 'other information' which could highlight matters relating to an entity's going concern viability or strategy and compare the same with the information presented in the FS.




Auditor should identify whether there is a material inconsistency between the other information and the financial statements or if there is material inconsistency between the other information and auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit, with possible implications on the auditor's report.

# DISCLOSURES FROM COVID-19 PERSPECTIVE

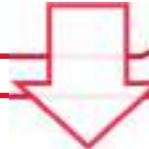
In case management has significant doubt about the entity's ability to continue as a going concern, disclose the uncertainties, even if it concludes that no material uncertainty exists.



When a material uncertainty exists, disclose the fact that entity's ability to continue as a going concern is subject to a material uncertainty.



Additional line items or sub-totals on the face of statement of profit and loss may be included to depict entity's performance such as impairment adjustment.



Enhanced disclosures regarding estimation uncertainty might be required, for instance, assumptions may be subject to a material change within the next period.

## DISCLOSURES FROM COVID-19 PERSPECTIVE CONTINUE..

Disclose any changes in financial risks such as credit risk, liquidity risk, currency risk and other price risk, and changes in objectives, policies and processes for managing those risks are expected.

Additional disclosures about liquidity risk might be needed when COVID-19 has affected cash flows from operations or the ability to access cash in other ways such as from government payments, factoring receivables or supplier financing.

Update management's analysis of principal risks and uncertainties that could affect the amounts reported in the financial statements or the functioning of the reporting entity.

Additional disclosures in the board's report or in an annual report (other than financial statements and auditor's report) need to be provided

# REFERENCES TO ICAI PUBLICATIONS RELATED TO COVID-19

- 
- ICAI Accounting and Auditing Advisory
  - Subsequent Events key audit considerations amid COVID-19
  - Physical inventory verification key audit consideration amid COVID-19
  - Auditor's reporting key audit consideration amid COVID-19
  - Going Concern - Key Considerations for Auditors amid COVID-19
  - Announcement for Use of Electronic Signature for Signing Audit Reports and Certificates



A large number of paper boats are scattered across a dark, rippling body of water. In the center, one paper boat is brightly lit with a warm orange glow, making it stand out from the others. The other boats are dimly lit and appear as dark shapes against the water. The overall scene is serene and evocative.

**THANK YOU!**