



Audit Conclusions and Reporting:

- Forming an Opinion and Reporting on Financial Statements,**
 - Communicating Key Audit Matters,**
 - Responsibilities Relating to Other Information**
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- WIRC Seminar on Audit of SMEs**

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New and Revised auditor reporting standards



- The new and Revised auditor reporting standards comprise:
 - SA 700 (Revised), Forming an Opinion and Reporting on Financial Statements
 - SA 701, Communicating Key Audit Matters in the Independent Auditor's Report
 - SA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report
 - SA 706 (Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
- These Standards are effective for audits of financial statements for periods beginning on or after April 1, 2018.

Enhancements to the auditor's report



For All entities

- Opinion first, followed by Basis for Opinion
- Affirmative statement of independence and fulfillment of relevant ethical responsibilities
- Going concern
 - Description of management and auditor responsibilities
 - Separate dedicated section to material uncertainty, when exists
- Identification of those charged with governance within management responsibilities section
- Expanded description of auditor responsibilities, including key features of an audit

Additional Requirement For Listed entities

- New section addressing Key Audit Matters
 - Those matters, in the auditor's judgment, were of most significance in the audit of the current period

SA 700 (Revised) - objectives & Scope



SA 700 deals with:

- Auditor's responsibility to express/form an opinion on the FS based on audit
- Form and content of the auditor's report issued as a result of an audit of FS
- Audit of complete set of general purpose FS

SA 701 deals with auditors' responsibility to communicate key audit matters in auditors' report

Form of Opinion:

- **Auditor shall express 'Unmodified Opinion'** when he concludes:
 - FS are prepared, in all material respects, in accordance with applicable financial reporting framework (FRF)

SA 700 (Revised) - objectives & Scope



Types of General purpose Framework:

Fair presentation framework:

- A fair presentation framework is where the auditor gives a “true and fair” report

Wordings: In our opinion, the accompanying financial statements give a true and fair view of [...] in accordance with [the applicable financial reporting framework]

Compliance framework:

- Where the auditor reports on whether the FS comply with the requirements of the applicable laws, or rules and regulations, or a set of contractual terms and conditions

Wordings: In our opinion, the accompanying financial statements of entity are prepared, in all material respects, in accordance with XYZ Law

SA 700 (Revised) - Forming an Opinion



- The auditor has obtained reasonable assurance that financial statements are free from material misstatement based on following factors-
 - Auditors' conclusion, whether sufficient appropriate audit evidence has been obtained
 - Auditors' conclusion, whether uncorrected misstatements are not material, individually or in aggregate
- When FS are prepared in accordance with fair presentation framework, auditor should evaluate whether FS achieve fair presentation. It includes:
 - The overall presentation, structure and content of the financial statements; and
 - Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation
- Auditor shall evaluate whether FS adequately refer to or describe the applicable financial reporting framework

SA 700 (Revised) - Basis for Opinion



Basis for Opinion

The auditors' report shall include a section with the heading "Basis for Opinion" that:

- States that audit is conducted in accordance with Standards on Auditing (SAs)
- Refer to the section of the auditors' report that describe auditors' responsibilities
- Includes a statement that the auditor is independent of the entity in accordance with relevant ethical requirements and has fulfilled auditors' other ethical responsibilities
- States whether the auditor believes that auditor has obtained sufficient and appropriate audit evidence to provide opinion



Changes in Auditor's Report Structure

Earlier Structure of Auditor's Report: Report on the Financial Statements

- **Title:** Independent Auditor's Report
- **Addressee:** As per Engagement terms
- **Subtitle:** Report on the FS
- **Introductory Paragraph:** To mention
 - Whose FS are audited and period covered
 - Title of each statement in FS
 - Refer summary of significant accounting policies and explanatory information
- **Management's Responsibility for the Financial Statements**
- **Auditor's Responsibility**
- **Basis for modified opinion, if any**
- **Auditor's Opinion**
- **Emphasis on Matter**
- **Other Matters**
- **Subtitle:** Report on Other Legal and Regulatory Requirements
- **Signature**
- **Date**
- **Place**

**Revised Structure of Auditor's Report:
Report on Audit of Financial Statements**

- **Title:** Independent Auditor's Report
- **Addressee:** As per Engagement terms
- **Subtitle:** Report on the Audit of the FS
- **Opinion:** Including information to be mentioned in introductory paragraph before
- **Basis for Opinion**
- **Emphasis of Matter (EOM)**
- **Key Audit Matters**
- **Responsibilities of Management and Those Charged with Governance for the Financial Statements**
- **Auditor's Responsibilities for the Audit of the Financial Statements**
- **Other matter (OM)**
- **Subtitle:** Report on Other Legal and Regulatory Requirements
- **Signature**
- **Date**
- **Place**
- **UDIN (w.e.f July 1, 2019)**

Significant changes made in SA 700 (Revised)



Wording of Opinion on FS has been amended

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

- In our opinion, the accompanying financial statements present fairly, in all material respects, [...] in accordance with [the applicable financial reporting framework]; or
- In our opinion, the accompanying financial statements give a true and fair view of [...] in accordance with [the applicable financial reporting framework]

'In our opinion, the accompanying' has been added in the beginning of sentence in SA 700 (Revised)

More elaborate description of management's responsibilities including reporting on going concern

- Management responsibility paragraph shall now include ***responsibility 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, if applicable, matters related to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate
- Management is responsible for **preparation and fair presentation** of the financial statements in accordance with aforesaid **Accounting Standards**
- This section of auditor's report shall identify those responsible for the oversight of the financial reporting process, when those responsible for such oversight are different from those who fulfil the responsibilities. In this case, the ***heading of this section shall also refer to "Those Charged with Governance"*** or such term that is appropriate in the context of the legal framework applicable to entity

Significant changes made in SA 700 (Revised)



Improved description of the responsibilities of the auditor

I. This section of audit report includes:

- State that the '**objectives**' of the auditor are as follows:
 - (i) Obtain reasonable assurance about whether the FS as a whole are free from material misstatement, whether due to fraud or error; and
 - (ii) To issue an auditor's report that includes the auditor's opinion.
- State that reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists; and
- State that **misstatements can arise from fraud or error**, and either:
 - Describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements; or
 - Provide a definition or description of materiality in accordance with the applicable financial reporting framework

Significant changes made in SA 700 (Revised)



Improved description of the responsibilities of the auditor

- II. Auditor exercises professional judgement and maintains professional skepticism throughout the audit
- Describe an audit by stating auditors' responsibilities are:
 - Identify and assess ROMM, design and perform audit procedures responsive to those risks to obtain sufficient and appropriate audit evidence.
 - To obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. In case of audit of companies, auditor is also responsible for expressing our opinion on whether the Company has adequate internal financial controls system in place and the operating effectiveness of such controls
 - Evaluate the appropriateness of accounting policies used and reasonableness of accounting estimates and related disclosures made by the management
 - Evaluate overall presentation, structure and content of financial statements including disclosures
 - Auditor shall conclude on the appropriateness of management's use of the going concern basis of accounting and, 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

Significant changes made in SA 700 (Revised)



Improved description of the responsibilities of the auditor

III. Auditor's responsibility section of the auditor's report shall also:

State that the auditor communicates with those charged with governance regarding:

- Planned scope and timing of the audit and
- significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit

State that the auditor provides those charged with governance with a statement that

- auditor has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence

State that key audit matters are communicated in accordance with SA 701, 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
- Areas in which the auditor encountered significant difficulty during the audit
- Circumstances that required significant modification of the auditors' planned approach to the audit

The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter

Significant changes made in SA 700 (Revised)



Improved description of the responsibilities of the auditor

The specific information outlined in **point I** is mandatory to be included in auditor's report whereas, information mentioned in **points II** and **III** above can be disclosed as follows:

- (a) Within the body of the auditor's report or;
- (b) Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix or;
- (c) By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or the applicable auditing standards expressly permit the auditor to do so

Significant changes made in SA 700 (Revised)



Matters to be reported under "Other Reporting Responsibilities"

Following are the continuing requirements carried forward from existing SA 700

- If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the SAs, these other reporting responsibilities shall be addressed in a separate section in the auditor's report with a heading titled "**Report on Other Legal and Regulatory Requirements**" which shall follow the "Report on the Audit of the Financial Statements" mentioned in the beginning of the report

Following are the new requirements under SA 700 (Revised)

- If other reporting responsibilities are presented in the same section as the related report elements required by the SAs, the auditor's report shall clearly differentiate the other reporting responsibilities from the reporting that is required by the SAs and not mention the heading as "Report on Other Legal and Regulatory Requirements"

Matters to be reported as "Key Audit Matters"

- This is covered in subsequent slides



SA 705 (Revised)- Scope and Meaning

SA 705(Revised) deals with auditor's responsibility to issue an appropriate report in circumstances when in forming an opinion in accordance with SA 700(Revised), auditor concludes that modification to auditor's opinion is required. It also deals with how the form and content of the auditor's report is affected when the auditor expresses a modified opinion.

The auditor shall modify the opinion when:

- ❖ Auditor concludes based upon the audit evidence, that FS are not free from material misstatement
- ❖ Auditor is unable to obtain audit evidence to conclude that FS are free from material misstatement

Types of modified opinions:

- **Qualified opinion**
- **Adverse opinion**
- **Disclaimer opinion**

Decision for modified opinion depends on:

- **Nature of matter, whether materially misstated**
- **Inability to obtain sufficient and appropriate audit evidence**
- **Auditor's judgement about pervasiveness of the matter**



SA 705 (Revised)- Scope and Meaning

Nature of matter	Auditor's judgment about the pervasiveness of the effects or possible effects on the FS	
	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

SA 705 (Revised)- Deciding factors for modified opinion



■ Nature of matter, whether materially misstated are related to:

- Appropriateness of selected accounting policies
- Application of selected accounting policies
- Appropriateness or adequacy of disclosure in FS



■ Inability to obtain sufficient and appropriate audit evidence may be arise from:

- Circumstances beyond the control of the entity
- Circumstances relating to the nature or timing of the auditor's tests and procedures and timing of audit
- Limitations imposed by management



■ Pervasive effects which can be undetected due to an inability to obtain sufficient appropriate audit evidence. These are:

- Are not confined to specific elements, accounts or items of FS
- If so confined, represent or could represent a substantial proportion of FS
- Are fundamental to users' understanding of FS

SA 705 (Revised)- Management Imposed Limitations



Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management -Imposed Limitation after the Auditor Has Accepted the Engagement

- Auditor should evaluate the need to express a qualified opinion or to disclaim an opinion on the financial statements due to scope limitation
- Auditor should request the management to remove the limitation
- If management refuses to remove the limitation, the auditor shall communicate the matter to TCWG
- Auditor should determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence
- Accordingly, auditor should evaluate the type of opinion in auditor's report
- If auditor is unable to obtain sufficient appropriate audit evidence, and possible effects on FS of undetected misstatement, could be material and pervasive, auditor should:
 - Withdraw from the audit, where practicable and possible under applicable law or regulation
 - If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements

Before withdrawing, the auditor shall communicate to TCWG any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion

Significant changes made in SA 705 (Revised)



The Relationship between Disclaimer of Opinion and KAM

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



Significant changes made in SA 705 (Revised)

Changes in description of auditor's responsibilities in case an auditor disclaims an opinion on the financial statements as per SA 705 (Revised)

As per SA 705 (Revised), when the auditor disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the description of the auditors' responsibilities to include **only** the following:

- (a) A statement that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with Standards on Auditing and to issue an auditor's report;
- (b) A statement that, however, because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and
- (c) The statement about auditor independence and other ethical responsibilities required by paragraph 28(c) of SA 700 (Revised)

In case of disclaimer of opinion, the above statements are positioned within the Auditor's Responsibilities paragraph as against within an appendix to the auditor's report or by a specific reference within the auditor's report to the location of such a description on a website



SA 706 (Revised) - Scope and Meaning

SA 706 deals with additional communication in the auditor's report to draw users' attention.

These are:

- ❖ **Emphasis of Matter (EOM) paragraph**
- ❖ **Other matter (OM) paragraph**

Emphasis of Matter (EOM)

- A matter appropriately presented or disclosed in the financial statements, which, in the auditor's judgement, is of such importance, that it is fundamental to users' understanding of the financial statements
- EOM is not a substitute for a modified opinion
- The matter has not been determined to be a KAM to be communicated in the audit report

For example: A significant subsequent event that occurs between date of financial statements and the date of audit report

Other Matter (OM)

- A matter other than those presented or disclosed in the financial statements that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.
- Not prohibited by law or regulation
- The matter has not been determined to be a KAM to be communicated in the audit report

For example: Planning and scoping matters

If the auditor expects to include EOM or OM in auditor's report, the auditor shall communicate with TCWG



SA 706 (Revised) - Scope and Meaning

Matters to be included in Other Matters paragraph

- Auditor may consider it necessary to include an OM paragraph in the audit report to explain why it is not possible for the auditor to withdraw from the engagement, even though the possible effect of an inability to obtain sufficient appropriate audit evidence due to a limitation on the scope of the audit imposed by management is pervasive
- If the auditor has determined that the two general purpose frameworks are acceptable in the respective circumstances, the auditor may include an OM paragraph in the auditor's report, referring to the fact that another set of financial statements has been prepared by the same entity in accordance with another general purpose framework and that the auditor has issued a report on those financial statements
- Since the audit report is intended for specific users, the auditor may consider it necessary in the circumstances to include an OM paragraph, stating that the auditor's report is intended solely for the intended users, and should not be distributed to or used by other parties

Other matters does not include following circumstances:

- ❖ Where auditor has other reporting responsibilities in addition to the auditor's responsibility as per SA 700
- ❖ Where the auditor has been asked to perform and report on additional specified procedures, or to express an opinion on specific matters

Significant changes made in SA 706 (Revised)



Relationship between EOM , OM paragraph and KAM in Audit Report:

- **KAM** are defined in SA 701 as those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.
- These are selected from matters communicated with those charged with governance (TCWG), which include significant findings from the audit of the financial statements of the current period,
- There may be a matter that is not determined to be a key audit matter in accordance with SA 701 (i.e., because it did not require significant auditor attention), 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.
- Although matters relating to significant risks may be determined to be key audit matters, however, other planning and scoping matters are unlikely to be key audit matters as defined in SA 701. However, law or regulation may require the auditor to communicate about planning and scoping matters in the auditor's report, or the auditor may consider it necessary to communicate about such matters in an Other Matter paragraph.



Standard on Auditing (SA) 701, Communicating Key Audit Matters in the Independent Auditor's Report



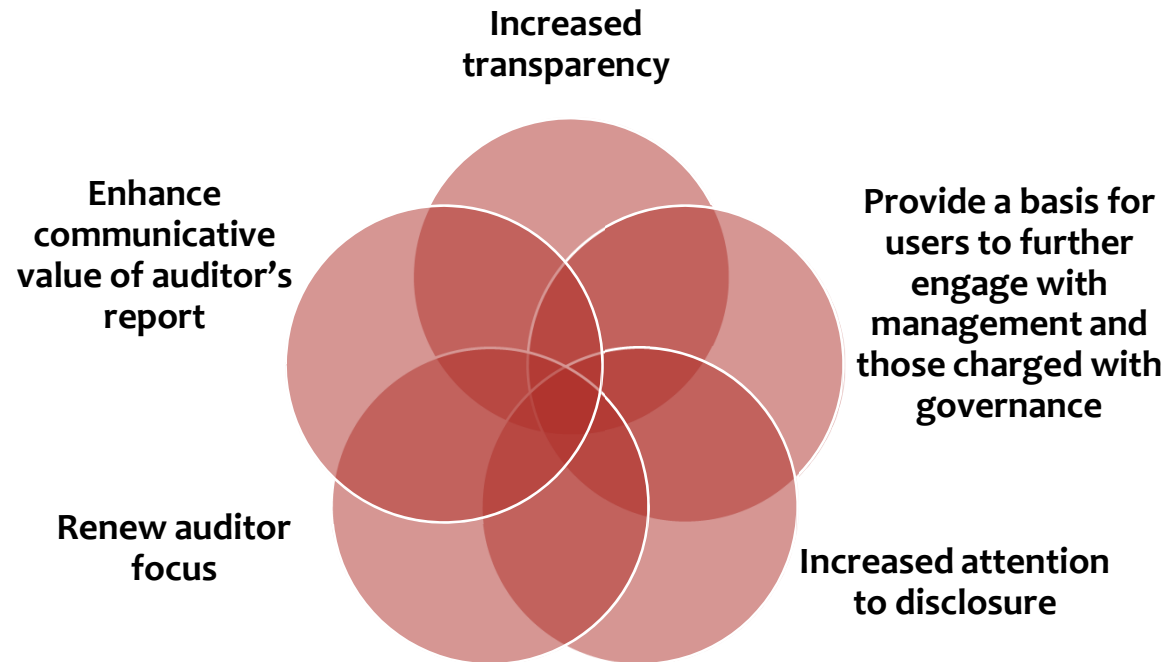
Need for ISA 701

Based on the indications of Academic Researches, Public Outreach programmes IAASB issued ISA 701 Considering:

- Increasing Expectations of FS Users to have insight of audit.
- Need to enhance Quality of Audit & Relevance of Audit
- Increasing Complexities in FRF



Benefits of ISA 701





Applicability of Standard

- Applicable for audits of **complete sets of general purpose FS**. Accordingly, the FS should be:
 - general purpose FS and
 - complete set of FS.
- Standard **mandatorily applicable** in case of audits of listed entities.
- Also applicable for audits of unlisted entities in following situations:
 - Where auditor is required by law or regulation to communicate KAM
 - Where auditor decides to communicate KAM (auditor may communicate KAM voluntarily or at the request of TCWG/Mgt.)

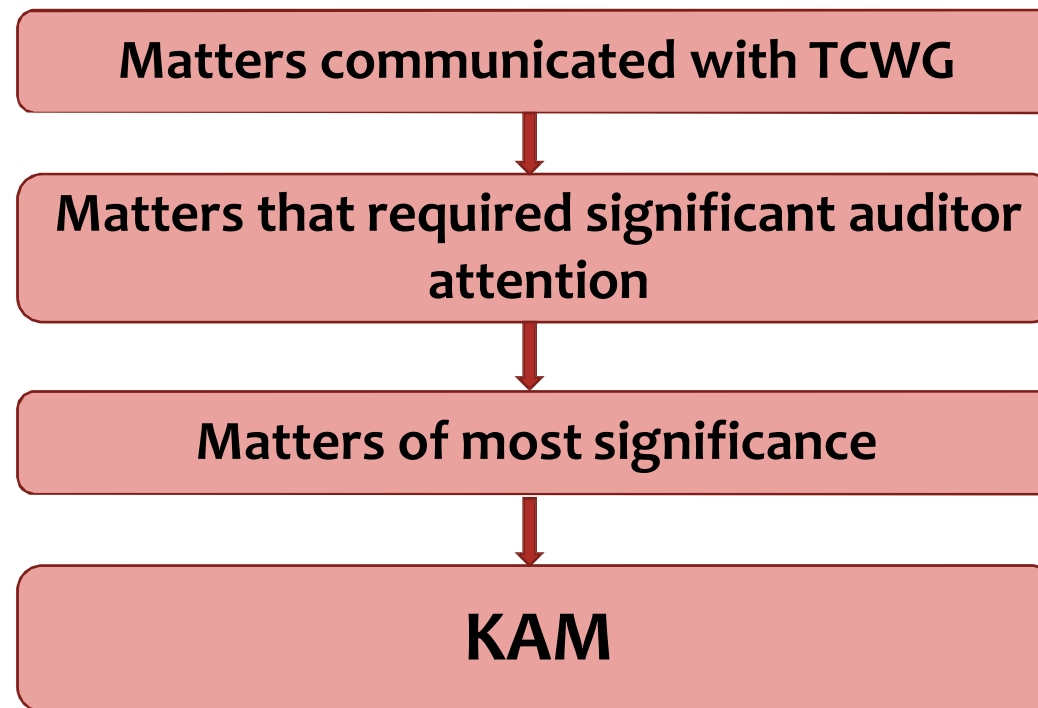


What are KAMs ?

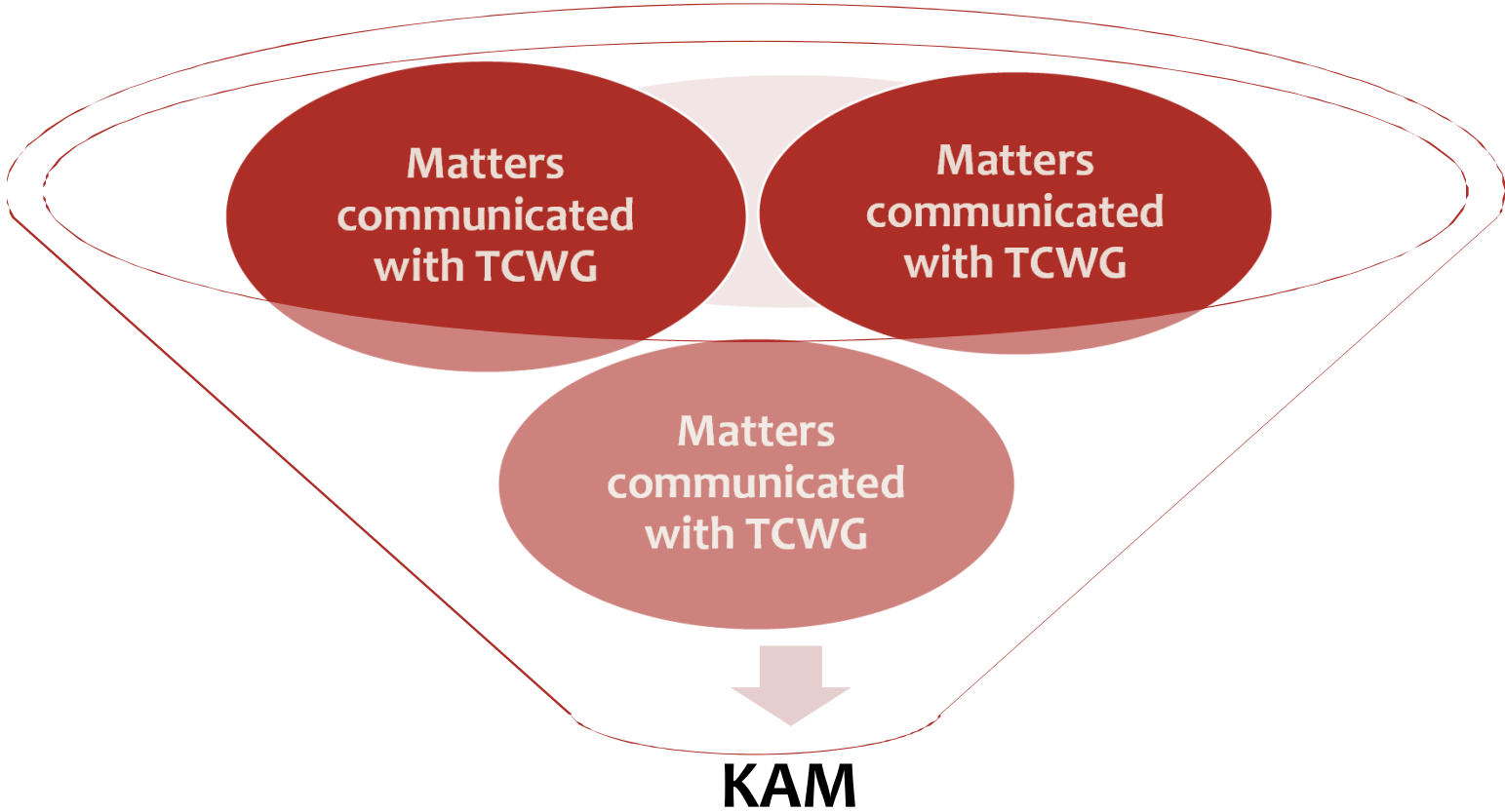
- Those matters that, in the auditor's **PJ**, were of **most significance** in the audit of FS of the **current period**.
- KAM are selected from the matters communicated with TCWG.



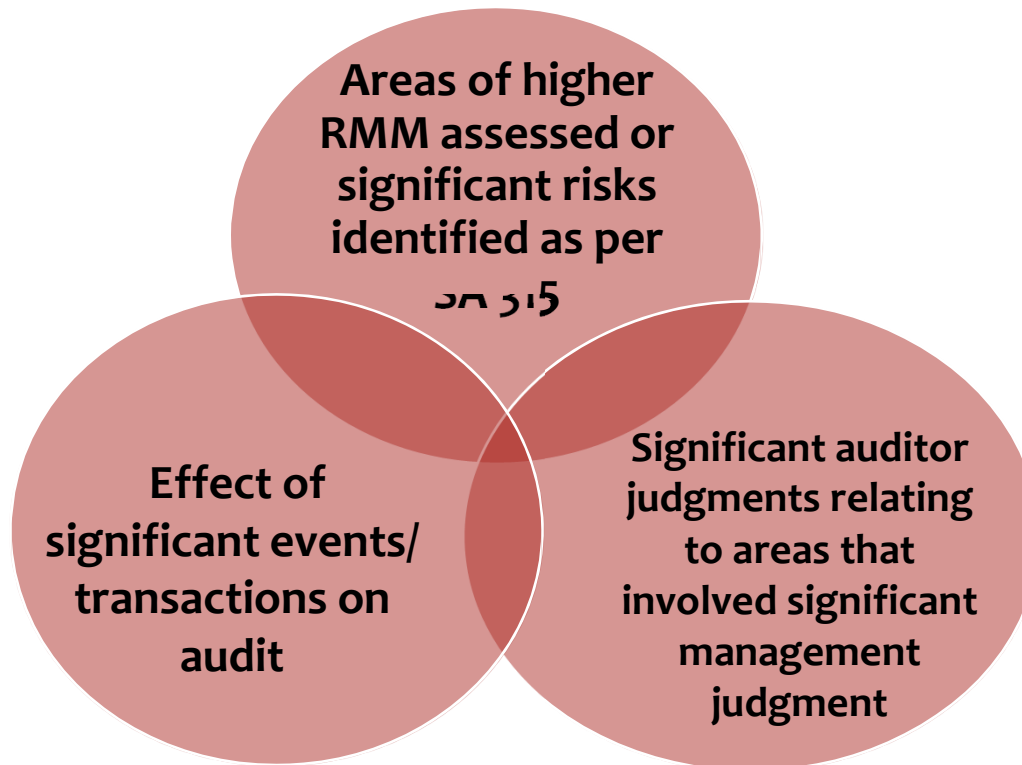
Process to Determine KAM



Selection of KAM- Funnel Approach



Matters that required significant auditor attention – Factors to Consider



Matters of Most Significance in Audit – Factors to consider



- Nature & extent of communication about the matter with TCWG.
- Importance of the matter to users' understanding of FS.
- Nature of underlying accounting policy – its complexity/subjectivity.
- Nature and materiality of corrected and accumulated uncorrected misstatements due to fraud / error related to the matter.
- Nature & extent of audit effort needed to address the matter.

Matters of Most Significance in Audit -

Factors to consider



- Nature & severity of difficulties faced by auditor in applying audit procedures, evaluating results of those procedures, and obtaining relevant and reliable evidence
- Severity of any control deficiency identified relevant to the matter
- Whether matter involved no. of separate but related audit considerations.



Communicating KAM in Auditor's Report – Important Points

How to Communicate KAM?



- Using an appropriate sub-heading “KAM” the auditor shall describe each KAM with reference to the related disclosures and explain:
 - Why the matter was considered to be one of the most significant; and
 - How the matter was addressed in the audit

Separate Section for reporting on KAM



- To be placed immediately below “Basis for Opinion” Section.
- To include preamble language.
- If **Material Uncertainty Related to Going Concern** Section required as per SA 570(R), then immediately below that Section.
- In this, auditor needs to describe each KAM under appropriate sub-heading so that individual KAM are differentiated.
- If there is no KAM to communicate, KAM Section is still required where the auditor needs to include a statement to that effect.

Use of Auditor's PJ in Presentation of KAM



- Order of presentation of individual KAM.
- Order of Individual KAM :
 - relative importance of each KAM.
 - based on auditor's judgment.
 - corresponding to the manner in which such matters are disclosed in FS.
- Number of KAM (No Ceiling By Standard)
 - complexity of the entity
 - nature of entity's business and environment
 - facts and circumstances of the audit engagement.



Description of individual KAM

- Adequacy of description of a KAM is matter of PJ.
- Description of each KAM should cover following 3 aspects:
 - reference to the related disclosures (if any) in FS.
 - Why matter was considered to be one of most significance in audit and therefore determined as KAM.
 - How the matter was addressed in the audit.
- In description of How the matter was addressed, auditor may cover following aspects:
 - of the outcome of the auditor's procedures
 - Audit auditor's response or approach to address the matter
 - A brief overview of procedures performed
 - An indication or Key observations with respect to the matter



Circumstances where a KAM should not be communicated

■ There are 2 situations

- Law or regulation precludes public disclosure about that matter; or
- In extremely rare circumstances, the auditor determines that the matter should not be communicated because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Circumstances where KAM Section required but no KAM will be communicated/described thereunder

■ There are 3 situations

- auditor determines there is no KAM.
- auditor determines that a KAM should not be communicated due to restrictions in Para 14 of SA 701 and no other KAM determined by him.
- The only KAM determined is a matter giving rise to modified opinion or a material uncertainty related to going concern.

Interrelationship of KAM with Other Elements of Auditor's Report



■ KAM vs Modified Opinion

- Auditor should not communicate a matter as KAM if that matter requires modification of auditor's opinion.
- Matters giving rise to modified opinion are by their nature KAM. However, these should be reported as per SA 705(Revised) and not under KAM.
- KAM section should not be given in case of disclaimer of opinion unless required by law or regulation.
- KAM section should be given in case of qualified opinion and adverse opinion.

Interrelationship of KAM with Other Elements of Auditor's Report



■ KAM vs EOM / OM Paragraph

- Concepts of EOM and OM still exist as per SA 706(Revised).
- EOM/OM paragraph cannot be used as a substitute for KAM. Paras 8 and 10 of SA 706(Revised) expressly prohibit including under EOM/OM para, a matter which is determined as KAM.

Interrelationship of KAM with Other Elements of Auditor's Report



■ KAM vs Going Concern

- “A Material Uncertainty related to Going Concern” is by its nature KAM. However, it should be reported as per SA 570(Revised) and not under KAM.

Communicating KAM not a substitute for



- Disclosures required in FS as per applicable FRF.
- Disclosures necessary to achieve fair presentation of FS.
- Requirement of expressing modified opinion in accordance with SA 705(Revised).
- Requirement of reporting about material uncertainty relating to going concern in accordance with SA 570(Revised).



Illustrative Formats of Auditor's Reports having KAM Section

- No illustrative formats given in SA 701
- Reference may be made to following illustrative formats having KAM Section given in other SAs:
 - Illustrations 1 and 2 in SA 700(Revised)
 - Illustrations 1, 2 and 3 in SA 705(Revised)
 - Appendix 3 in SA 706(Revised)
 - Illustrations 1 and 2 in SA 570(Revised)
 - Illustrations given in SA 720(Revised) except illustration 3.



Communication with TCWG

- Auditor needs to communicate with TCWG the following aspects:
 - Matters determined as KAM by auditor, or
 - If applicable, auditor's determination that there are no KAM to communicate.

Documentation



- **The auditor needs to document the following aspects:**
 - The matters that required significant auditor attention as determined in accordance with para 9, and the rationale for auditor's determination as to whether or not each of these matters is a KAM in accordance with para 10.
 - Where applicable, the rationale for auditor's determination that there are no KAM to communicate or that the only KAM to communicate are those matters addressed by para 15.
 - Where applicable, the rationale for auditor's determination not to communicate a matter determined to be a KAM.



Standard on Auditing (SA) 720

The auditor's responsibilities relating to other information



Scope & Objective

- This SA deals with the auditor's responsibilities relating to other information, whether financial or non-financial information (other than financial statements and the auditor's report thereon), included in an entity's annual report
- SA 720 (Revised) requires an auditor to read and consider the other information to ascertain the cases where:
 - There is a material inconsistency between the other information and the financial statements
 - There is a material inconsistency between the other information and the auditor's knowledge obtained in the audit.
- The SA 720 (Revised) increases the responsibility of the auditor relating to other information in enhancing the reliability of financial statements.
- The auditor's responsibilities relating to other information (other than applicable reporting responsibilities) apply regardless of whether the other information is obtained by the auditor prior to, or after, the date of the auditor's report.



Other Information

- Depending on the applicable law, regulation or custom, one or more of the following documents may form part of the annual report:
 - Management report, management commentary, or operating and financial review or similar reports by those charged with governance (for example, a directors' report)
 - Chairman's statement
 - Corporate governance statement/reports.
- SA 720 (Revised) does not apply to preliminary announcements of financial information or securities offering documents, including prospectuses.



- The material inconsistency identified by the auditor may indicate that
 - there is a material misstatement of the financial statements or of the other information, either of which may undermine the credibility of the financial statements and the auditor's report thereon.
 - Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor's report is prepared.



Reporting

- The auditor's report would include a separate section with a heading 'Other Information', or other appropriate heading, when, at the date of the auditor's report:
 - For an audit of financial statements of a listed entity, the auditor has obtained, or expects to obtain, the other information, or
 - For an audit of financial statements of an unlisted corporate entity, the auditor has obtained some or all of the other information.



- A statement that management is responsible for the other information.
- Identification of the other information obtained prior to the date of the auditor's report.
 - In the case of audit of a listed entity, the auditor is also required to identify any other information expected to be obtained after the date of the auditor's report.
- A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon.
- A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by SA 720 (Revised).
- When other information has been obtained prior to the date of the auditor's report, either:
 - A statement that the auditor has nothing to report; or
 - If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.



Material Misstatement Exists in OI

- Auditor after reviewing the other information concludes that material misstatement of the other information exists, then the auditor should request the management to correct the other information and if required communicate the matter to those charged with governance



Material Misstatement Exists in OI... uncorrected

- *Reporting implications:* The auditor should consider implications for the auditor's report and communicating with those charge with governance to consider the ways to address the material misstatement in the auditor's report such as a disclaimer of opinion on the financial statements.
- *Withdrawal from the engagement:* The auditor may consider withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.
 - In cases where withdrawal is not possible, the auditor may issue a report to the legislature providing details of the matter or may take other appropriate actions



Material Misstatement Exists in OI... after audit report is issued

- *If the material misstatement has been corrected:* The auditor should perform the additional procedures ensure correction has been made and review the steps taken by the management to communicate with those in receipt of the other information.
- *If the other information is not corrected:* The auditor should take appropriate action considering the auditor's legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared.



Thank you