



Revised format of Audit Reports Companies Act, 2013 & SA 700, 705 & 706



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Disclaimers

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Standards pertaining to Audit Reports

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SA 700→
Forming an
opinion and
Reporting on
Financial
Statements

SA 706→ Emphasis
of Matter Paragraphs
and other matter
paragraphs in the
Independent
Auditors Report.



SA 705→
Modifications to
the opinion in the
Independent
Auditors report

SA 800→ Audits of
financial statements
prepared in
accordance with
special purpose
frameworks



Applicability

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- ❑ Section 143 of The Companies Act 2013 notified.
- ❑ Institute announcement of illustrative audit reports issued on December 16, 2014.
- ❑ Issued on standalone financial statements only
- ❑ Not yet added as an appendix to the SA 700, 705 & 706



Sec 143(1) of Companies Act 2013

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- ❑ Requires the auditor to make inquiries
- ❑ Now requires a positive confirmation. Vis-à-vis the negative confirmation in the Companies Act. 1956

Section 143 (1) of Companies Act, 2013	Section 227(1) of Companies Act, 1956
(a) whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members;	(a) whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are NOT prejudicial to the interests of the company or its members;
(b) whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;	(b) whether transactions of the company which are represented merely by book entries are NOT prejudicial to the interests of the company;



Sec 143(1) of Companies Act 2013...

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- ❑ *(a) whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members*
 - ❑ Whether the auditor is required to report ?
 - ❑ If the loans are not secured?
 - ❑ If they are prejudicial
 - Prejudicial is not defined → Do we use the same stand that we used to take in CARO earlier ?
 - ❑ If there are no contractual terms?
- ❑ *(b) whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;*
 - ❑ Can affect the true and fair view of the financial statements.



Sec 143(1) of Companies Act 2013...

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- ❑ Provisio to Section 143 gives the auditor the right of access to the records of all the subsidiaries in so far as it relates to consolidation of the subsidiary financial statements.
- ❑ Is it applicable only to a subsidiary company or does it include associates and Joint ventures too?
- ❑ Para 10 of SA 600 mentions that the principal auditor would normally be entitled to rely upon the work of the component auditor unless there are special circumstances that make it essential to visit the component and examine books of accounts and other records of the component.



Sec 143(2) of Companies Act 2013

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- ❑ Requires the auditor to prepare an audit report after considering :
 - ❑ Provisions of the Act
 - ❑ Accounting & Auditing Standards
 - ❑ Matters required to be included under the provisions of this Act. → Section 143 (3).
 - ❑ Would be disclosed as Other Matters as per SA 706.
- ❑ Statement on other matters that the Central Government in consultation with NFRA would direct.
 - ❑ Currently, no such statement has been prescribed.



Sec 143(3) of Companies Act 2013

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- Requires the auditor to state in the report prescribed matters.

Companies Act 2013	Companies Act, 1956
(a) whether he has SOUGHT and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit AND IF NOT, THE DETAILS THEREOF AND THE EFFECT OF SUCH INFORMATION ON THE FINANCIAL STATEMENTS;	(a) whether he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purposes of his audit;
(b) whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him;	(b) whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books, and proper returns adequate for the purposes of his audit have been received from branches not visited by him;



Sec 143(3) of Companies Act 2013...

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- ❑ Requires the auditor to state in the report prescribed matters.

Companies Act 2013	Companies Act, 1956
(c) whether the report on the accounts of any branch office of the company audited under sub-section (8) by a person other than the company's auditor has been sent to him under the proviso to that sub-section and the MANNER in which he has dealt with it in preparing his report;	(bb) whether the report on the accounts of any branch office audited under section 228 by a person other than the company's auditor has been forwarded to him as required by clause (c) of sub-section (3) of that section and how he has dealt with the same in preparing the auditor's report;
(d) whether the company's balance sheet and profit and loss account dealt with in the report are in agreement with the books of account and returns;	(c) whether the company's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account and returns.
(e) whether, in his opinion, the financial statements comply with the accounting standards;	(d) whether, in his opinion, the profit and loss account and balance sheet comply with the accounting standards referred to in sub-section (3C) of section 211;



Sec 143(3) of Companies Act 2013...

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- ❑ Requires the auditor to state in the report prescribed matters.

Companies Act 2013	Companies Act, 1956
(f) the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;	(e) in thick type or in italics the observations or comments of the auditors which have any adverse effect on the functioning of the company;
(g) whether any director is disqualified from being appointed as a director under sub-section (2) of section 164;	(f) whether any director is disqualified from being appointed as director under clause (g) of sub-section (1) of section 274;
(h) any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;	Not mentioned
(i) whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls;	Not mentioned.
(j) such other matters as may be prescribed.	



Section 143 (3)

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- ❑ Sub section (a) requires the auditor to seek information . In case, information is not available, the details of the information and the effect thereon on the financial statements.
- ❑ Sub section (c) requires the auditor to mention the manner in which audit reports of branches audited by other auditors have been dealt with.



Section 143 (3)...

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- ❑ Sub section (f) requires the auditor to give observations or comments on financial transactions or other matters which have an adverse effect on the functioning of the company.
 - ❑ Judgmental call by the auditor to determine if a financial transaction or other matter has an adverse effect on the functioning of the company.
 - ❑ Would impact the true and fair view. →
 - ❑ Illustration 1 and 2 issued by ICAI indicate that a clean audit report can still have a negative comments in para (f)
 - ❑ Adverse opinion to be given as per SA 705 if the financial statements are both pervasive and materially mis-stated
 - ❑ Qualified opinion to be gives as per SA 705 is the
- ❑ Illustration 3 & 5 issued by the ICAI mentions this as for both qualified and adverse opinions respectively.



Section 143 (3)...

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- ❑ Sub section (h) requires the auditor to mention any qualification, reservation or adverse remark relating to maintenance of accounts and other matters connected therewith.
 - ❑ *Reservation* not defined.
 - ❑ Would result in an adverse opinion.
 - ❑ Not really different from sub section (f)
- ❑ Sub Section (i) requires the auditor to report on the adequacy of the internal financial controls systems in place and operating effectiveness of those controls.
 - ❑ Applicability of this deferred to financial years commencing on or after April 1, 2015 vide MCA announcement dated October 14, 2014.
 - ❑ Adverse comment in this para need not impact the main audit opinion.
 - ❑ Wordings are given in Illustration 1 of the ICAI issued formats of the audit report



Section 143 (3)...

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- ❑ Sub section (j) requires the auditor to comment on other matters
- ❑ Specified under Rule 11 of Companies (Audit & Auditors) Rules, 2014.
- ❑ Whether the company has disclosed the impact, if any, of pending litigations on its financial position and its financial statements
 - ❑ Cases against the company would be disclosed as contingent liabilities anyway.
 - ❑ There would be no financial impact of pending litigation in respect of cases filed by the company.
- ❑ Whether provisions for material foreseeable losses on long term contracts, including derivative contracts have been made?
 - ❑ Loss on onerous contracts to be provided for, as per AS-7 anyway.
 - ❑ Period of long term is not defined. Would ordinarily mean more than twelve months. Or as per company's operating cycle?
- ❑ Whether there has been a delay in transferring amounts to IEPF.
 - ❑ Hitherto, was covered under statutory payments clause in CARO.



Institute Illustrations

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Illus.	Particulars	
Illus. 1	Unmodified Opinion on Standalone Financial Statements, Emphasis of Matter Paragraphs, Reporting on clause 143(3)(i) regarding internal financial controls is required	Will be added to Appendix to SA 700
Illus. 2	Unmodified Opinion on Standalone Financial Statements, Emphasis of Matter Paragraphs, Reporting on clause 143(3)(i) regarding internal financial controls is not required	
Illus. 3	Qualified Opinion on Standalone Financial Statements, Qualification is quantifiable, Reporting on clause 143(3)(i) regarding internal financial controls is not required	Will be added to Appendix to SA 705
Illus. 4	Qualified Opinion on Standalone Financial Statements, Qualification is not quantifiable, Reporting on clause 143(3) (i) regarding internal financial controls is not required	
Illus. 5	Adverse Opinion on Standalone Financial Statements, Reporting on clause 143(3)(i) regarding internal financial controls is not required	
Illus. 6	Disclaimer of Opinion on Standalone Financial Statements, Reporting on clause 143(3)(i) regarding internal financial controls is not required	



Summary of illustrations

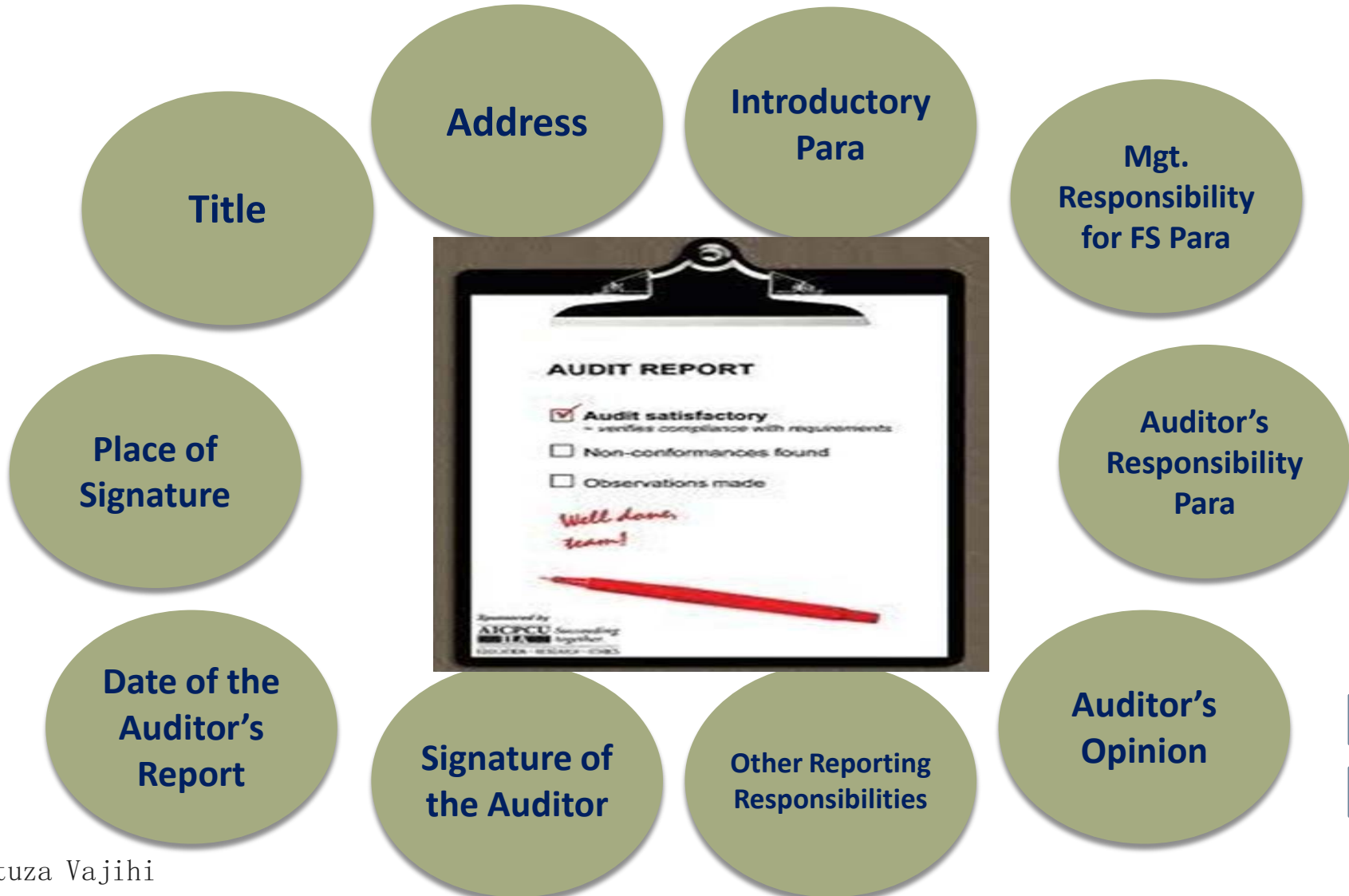
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Unmodified Opinion	Qualified Opinion	Adverse Opinion	Disclaimer of Opinion
Illustration 1 & 2	Illustration 3 & 4	Illustration 5	Illustration 6
Sub section (f) : The going concern matter described in sub-paragraph (b) under the Emphasis of Matters paragraph may have an adverse effect on the functioning of the company.	Sub section (f) : The matter described in the Basis for Qualified Opinion paragraph, may have an adverse effect on the functioning of the company.	Sub section (f) : The matter described in the Basis for Adverse Opinion paragraph , may have an adverse effect on the functioning of the company	Sub section (f) : The matter described in the Basis for Disclaimer of Opinion paragraph may have an adverse effect on the functioning of the company.
No reference of sub section (h)	Sub section (h) : The qualification relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Qualified Opinion	Sub section (h) : The adverse remarks relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Adverse Opinion	Sub section (h) : The reservation relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Disclaimer of Opinion



SA 700 - Form of audit report

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Illus. 1

Illus. 2



SA 705 → Modifications to the opinion in the Independent Auditors report

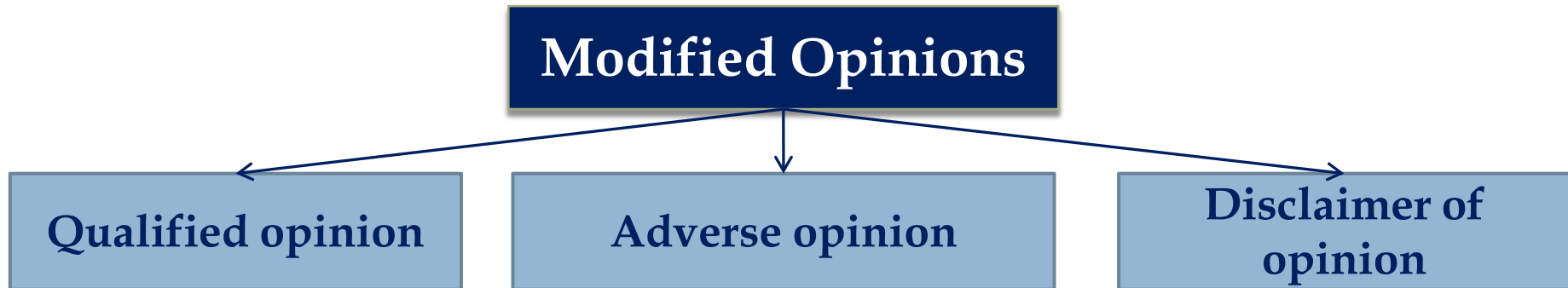
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SA 705... → Modified Report

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Depends on:

- Whether financials are materially mis-stated
- Inability to obtain sufficient appropriate audit evidence
- Judgement about pervasiveness of effects on the financial statements



SA 705...

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Matter leading to modification	Material but not pervasive	Material and pervasive
FS materially mis-stated	Qualified opinion Illus. 3	Adverse opinion Illus. 5
Inability to obtain evidence	Qualified opinion Illus. 4	Disclaimer of opinion Illus. 6

- Situations where there are multiple uncertainties, but the auditor in spite of obtaining sufficient evidence is not able to form an opinion due to interaction of these uncertainties and their possible effect on FS.



SA 706 → Emphasis of Matter & Other matters

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SA 706 → Emphasis of Matter & Other matters...

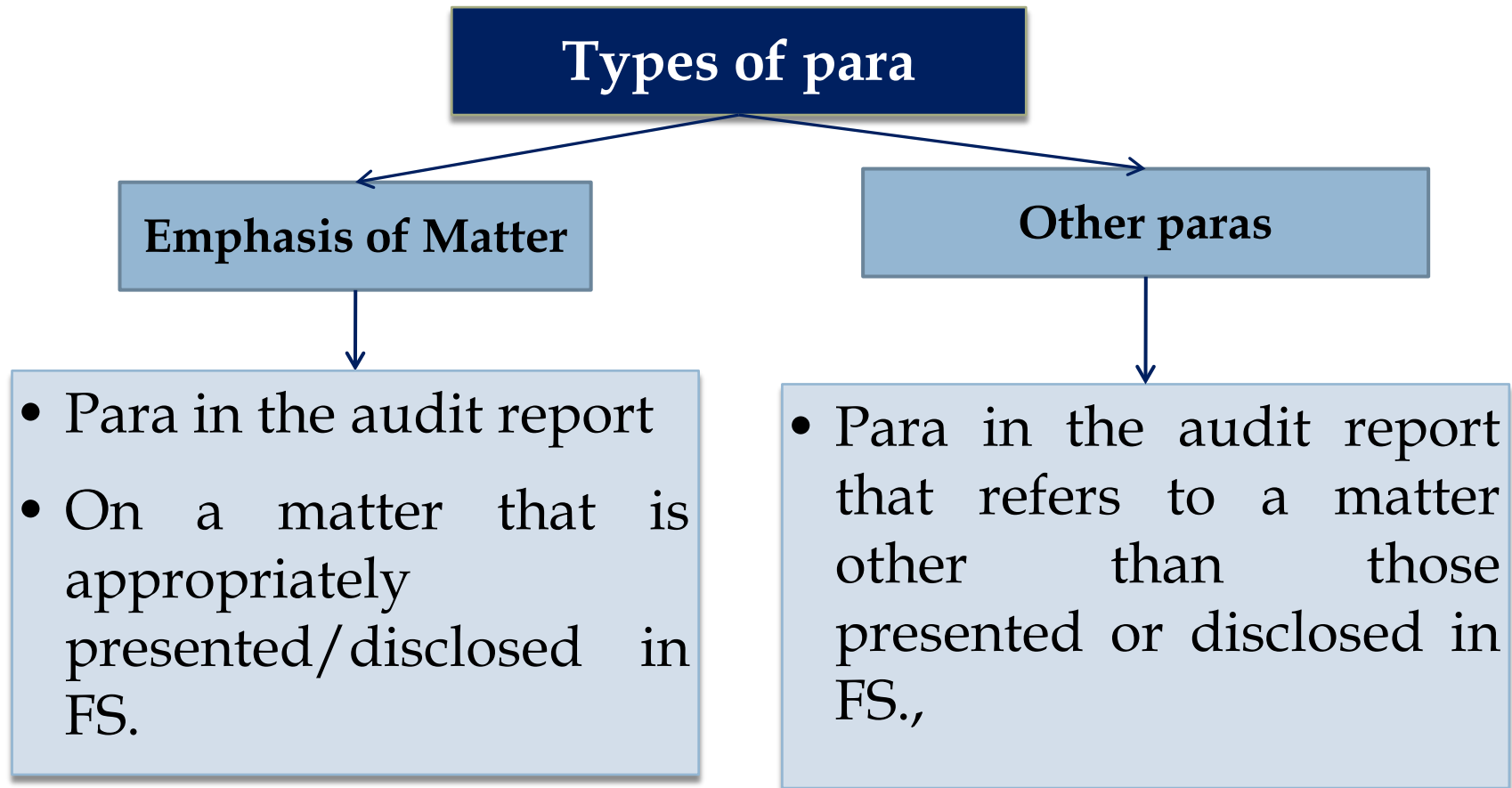
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- ❑ Objective
 - ❑ Once an opinion is formed on FS,
 - ❑ Draw users attention
 - ❑ When auditor judges that it is necessary to do so
 - ❑ By way of clear communication
 - ❑ On a matter that is appropriately presented or disclosed in FS, but it is of such importance that it is fundamental to the users understanding of the FS.



SA 706 → Form of audit report

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Thank you

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