

Compliance with the SAs:

While discharging their attest function, it is the duty of the members of the Institute to ensure that the SAs are followed in the audit of financial information covered by their audit reports.

If for any reason a member has not been able to perform an audit in accordance with the SAs, his report should draw attention to the material departures therefrom. Auditors are expected to follow SAs in the audits commencing on or after the date specified in the Standard. Further, compliance of SAs are mandatory requirement as per the Companies Act, 2013.

Linkage between SAs and Disciplinary Proceedings: The SAs (as well as other statements on auditing) represent the generally accepted procedure(s) of audit. As such, a member who does not perform his audit in accordance with these statements and fails to disclose the material departures there from, becomes liable to the disciplinary proceedings of the Institute. Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if:

he fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity.

Clause 5 of Part I of the Second Schedule

he does not exercise due diligence, or is grossly negligent in the conduct of his professional duties.

Clause 7 of Part I of the Second Schedule

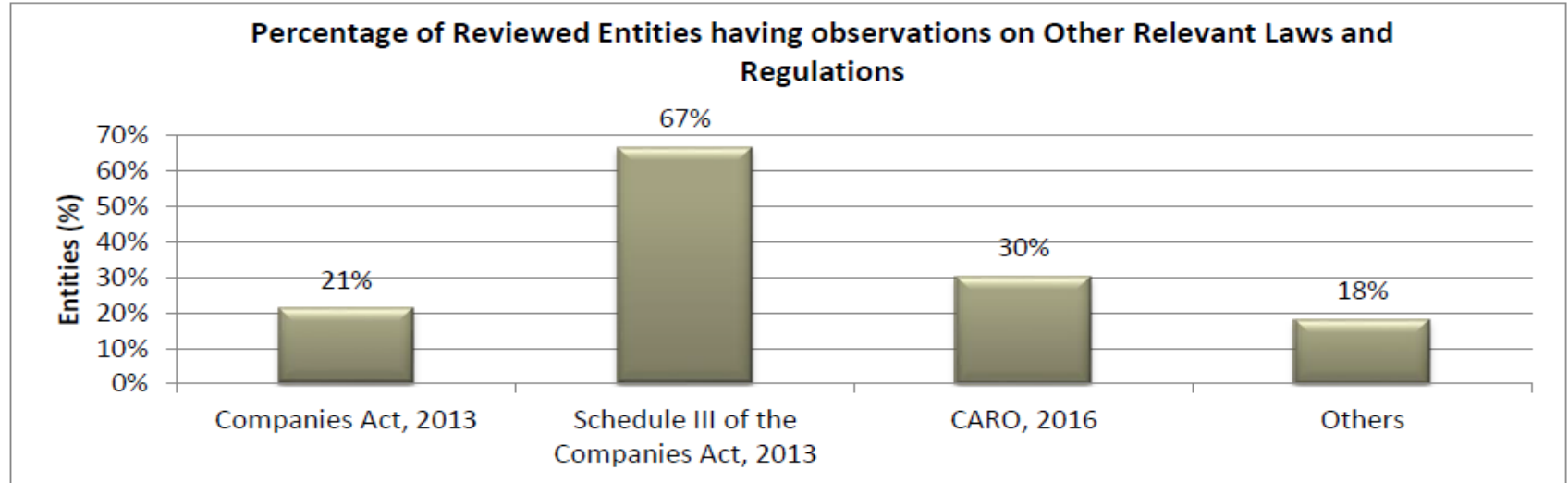
he fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.

Clause (9) of Part I of the Second Schedule

QRB report 2024

❖ Percentage of reviewed Entities having observations on Other Relevant Laws and Regulations

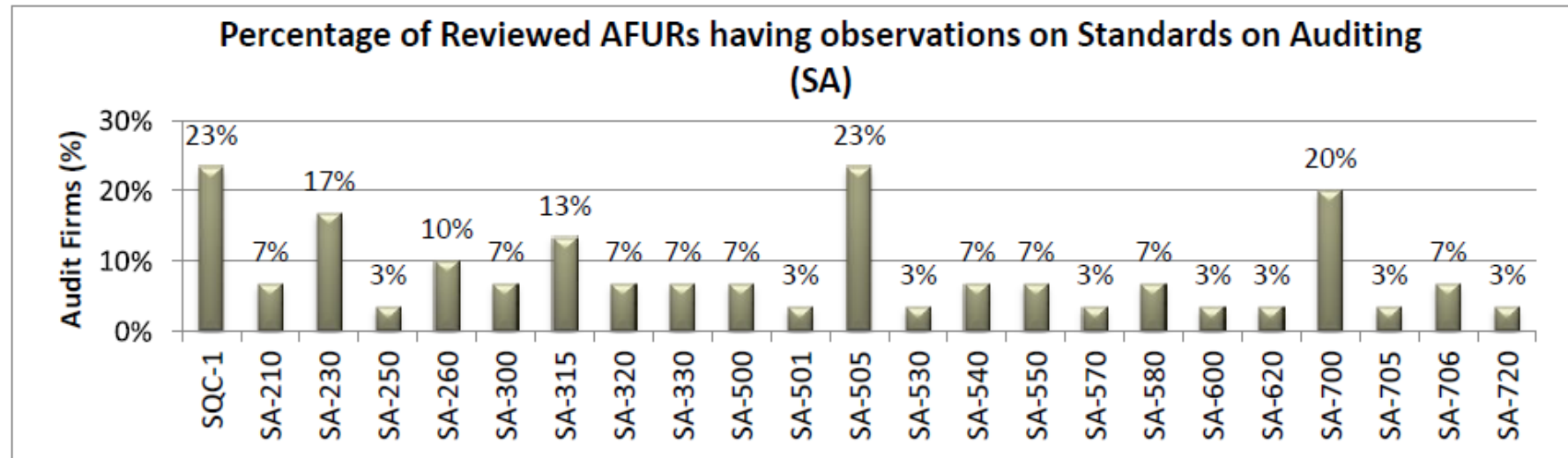
The following chart represents the percentages of reviewed entities having observations under Other Relevant Laws and Regulations as noted during audit quality reviews. It can be seen that maximum Entities had observations on Division I & II under Schedule III of the Companies Act, 2013 (67%) followed by CARO 2016 (30%), Companies Act, 2013 (21%), Others (18%).



QRB report 2024

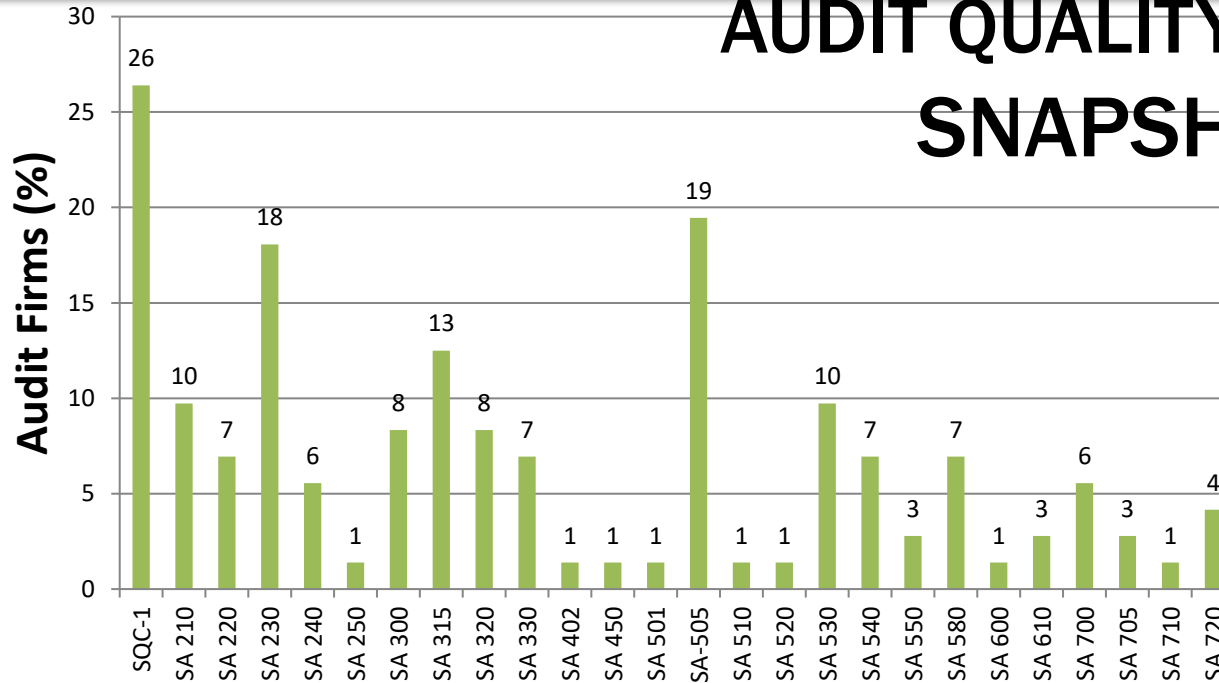
❖ Percentage of reviewed AFURs having observations on various Standards on Auditing (SA)

The following chart represents the percentages of reviewed AFURs having observations under various SAs as noted during audit quality reviews. It can be seen that maximum AFURs had observations on Standard on Quality Control (SQC)-1 (23%) and SA 505 External Confirmations (23%) followed by SA 700 Forming an Opinion and Reporting on Financial Statements (20%) and so on.



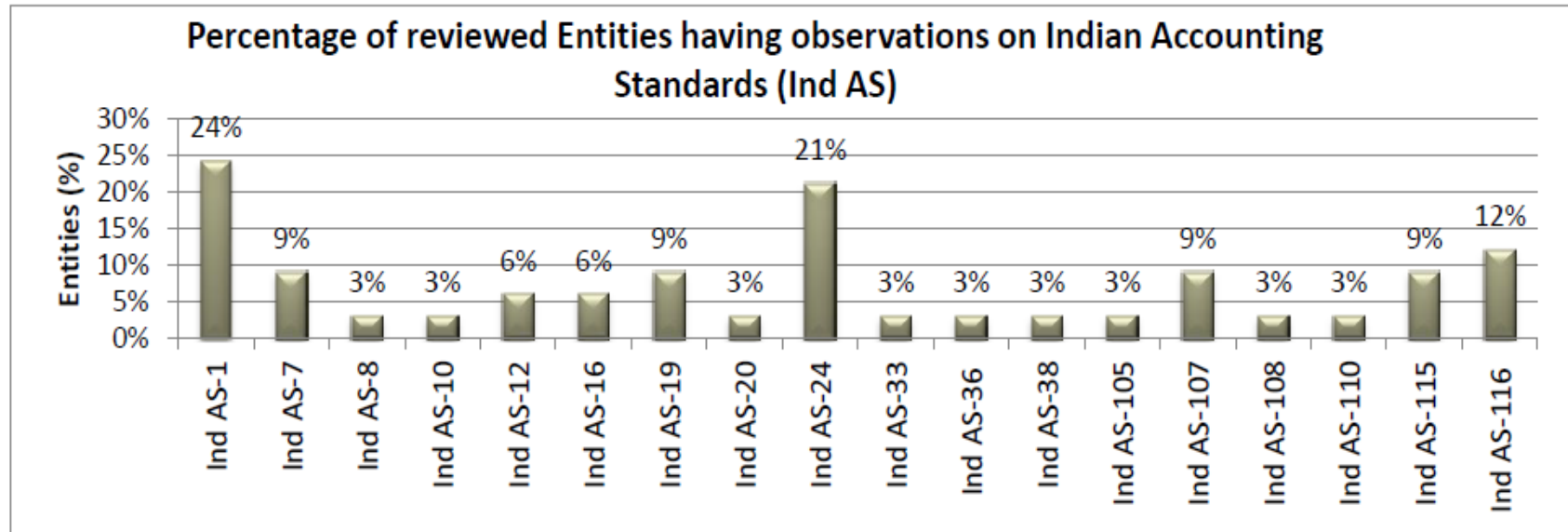
% OF REVIEWED AUDIT FIRMS HAVING OBSERVATIONS ON STANDARDS ON AUDITING (SA) IN FY 2019-20

AUDIT QUALITY REVIEW SNAPSHOT



❖ Percentage of reviewed Entities having observations on Indian Accounting Standards (Ind AS)

The following chart represents the percentages of reviewed entities having observations under various Ind AS as noted during audit quality reviews. It can be seen that maximum entities had observations on Ind AS 1 Presentation of Financial Statements (24%) and Ind AS 24 Related Party Disclosures (21%).



QRB report 2024

❖ Percentage of reviewed Entities having observations on Accounting Standards (AS)

The following chart represents the percentages of reviewed entities having observations under various AS as noted during audit quality reviews. It can be seen that maximum entities had observations on AS 1 Disclosure of Accounting Policies (18%), AS 3 Cash Flow Statements (18%), and AS 15 Employee Benefits (18%) followed by AS 13 Accounting for Investments (12%), AS 18 Related Party Disclosures (12%) and so on.

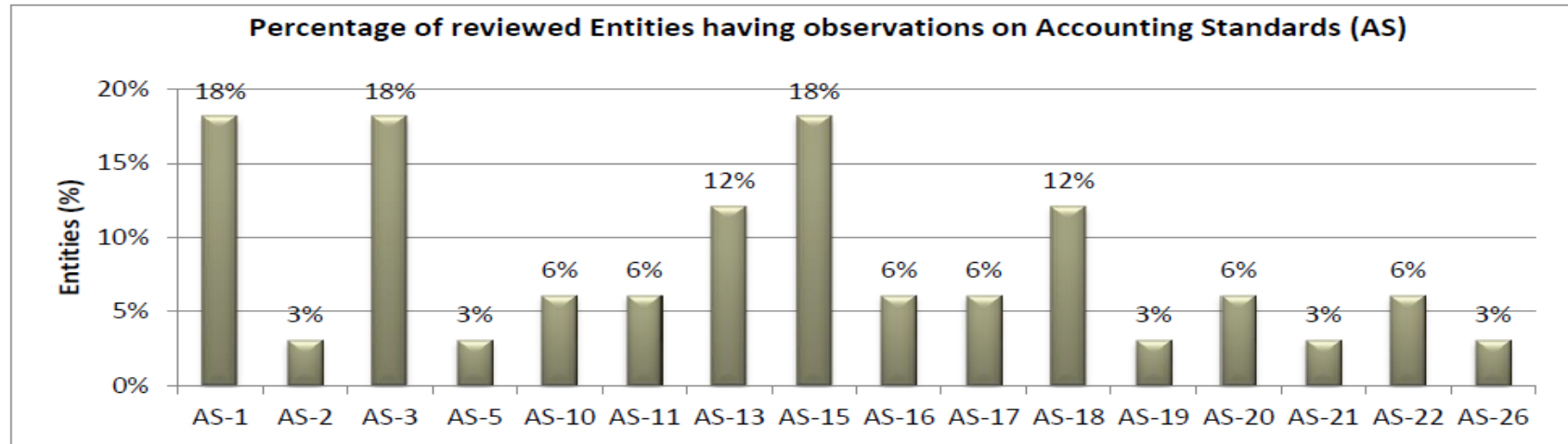
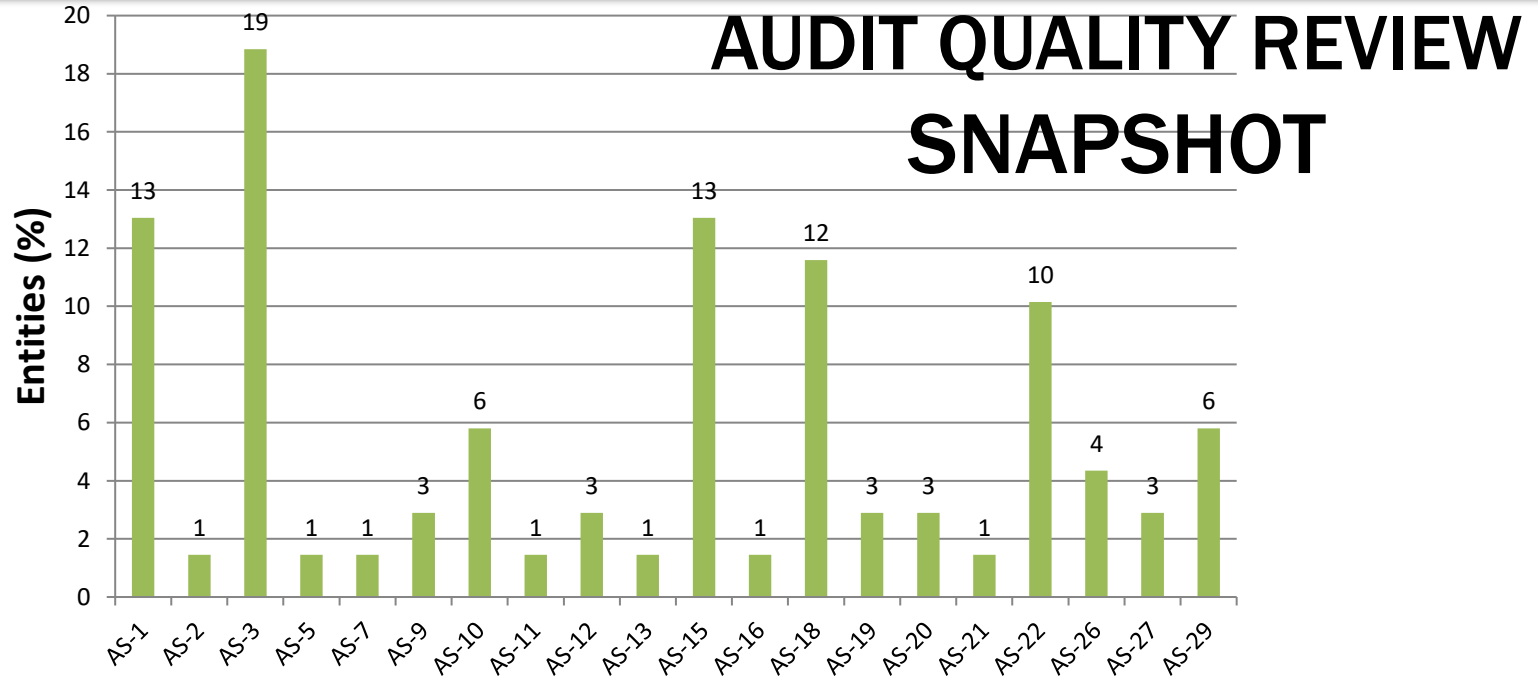


Chart 10

% OF ENTITIES HAVING OBSERVATIONS ON ACCOUNTING STANDARDS (AS) FOR REVIEWS CONDUCTED IN FY 2019-20



The Statutory Audit Lifecycle: A Professional Roadmap



Phase 1-3: Setup & Risk Assessment

Evaluate ethics and independence, determine materiality, and assess fraud risks before substantive execution.



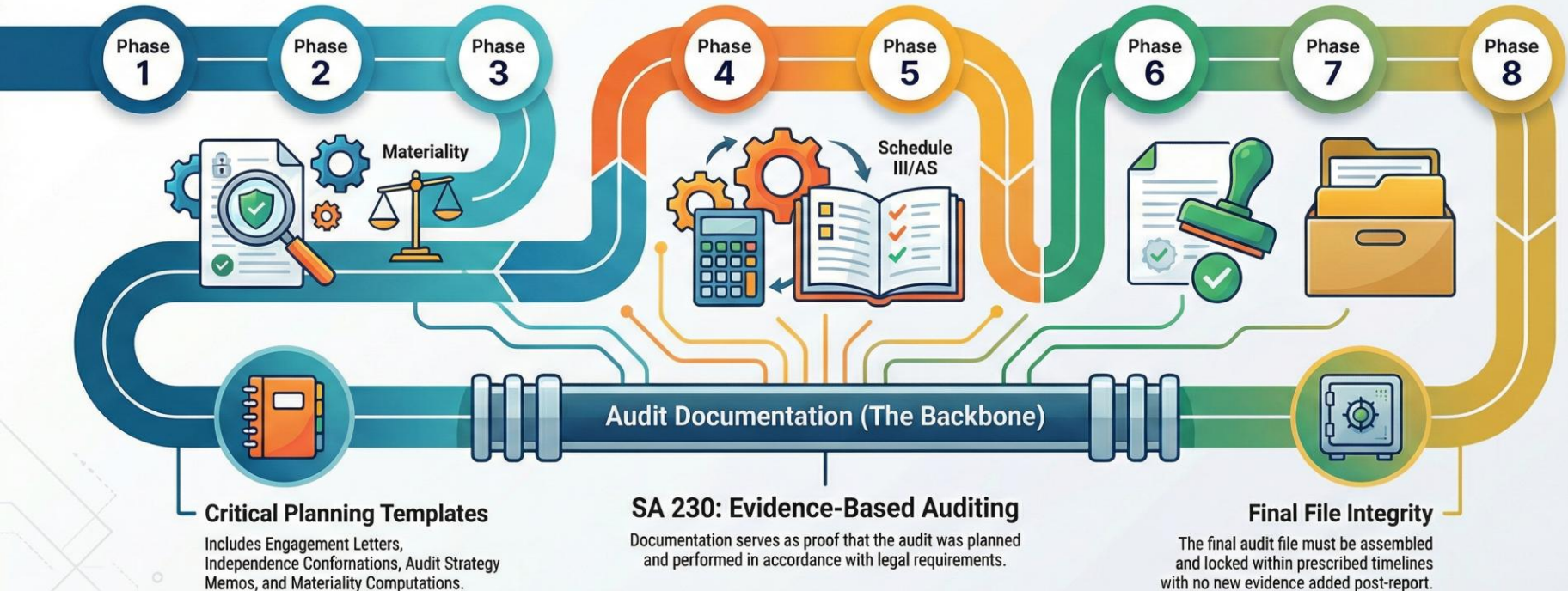
Phase 4-5: Execution & Disclosures

Perform risk-responsive substantive procedures and review financial statements for Schedule III and Accounting Standard compliance.



Phase 6-8: Completion & Archival

Evaluate uncorrected misstatements, form the audit opinion, and perform the final administrative file lock-down.



Foundation of Audit Documentation

Why Documentation Is the Backbone of Every Audit

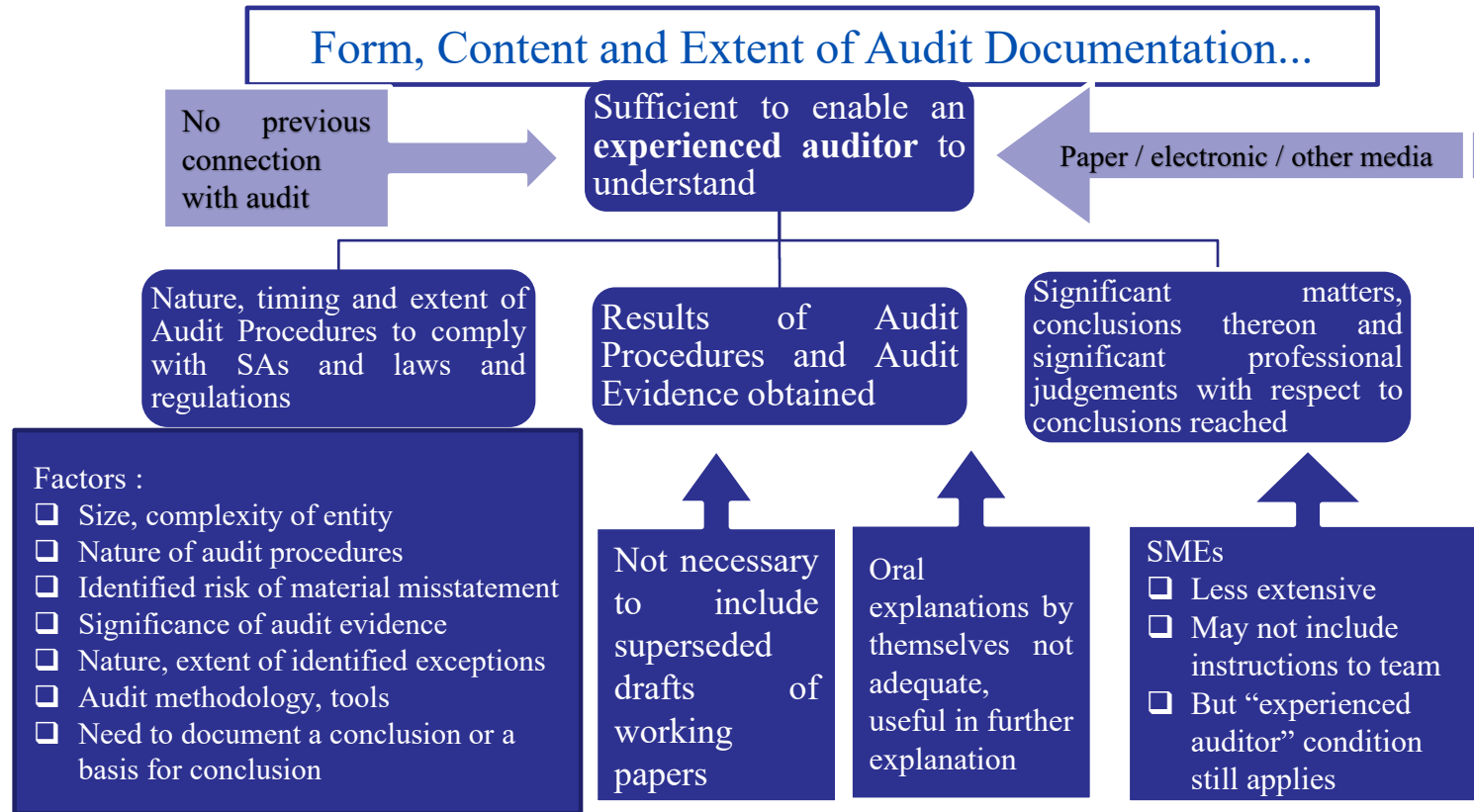


The auditor may have executed appropriate audit procedures, however, if there is no documentation to prove, it may put question on the work done.

Hence Audit Documentation

- Supports the auditor's basis for a conclusion about achieving the auditor's objectives
- Provides evidence that the audit was planned and performed in accordance with SAs
- Assists supervision and review by engagement manager and partner (SA 220)
- Retains record of matters of continuing significance to future audits
- Results in better conceptual clarity and clarity of thought and expression
- Facilitates better understanding and helps avoid misconception
- Supports and evidences compliance with SAs and applicable legal & regulatory requirements
- Enables quality control reviews and inspections under SQC 1
- Enables external inspections by NFRA, ICAI Peer Review Board, QRB, FRRB, TAQRB, SEBI, MCA etc

Documentation of the audit procedures and audit evidence...



Confidential information

Auditor has verified confidential information / documents physically but those document has not shared with them

Obtained communication from the client that it is confidential in nature and hence unable to share. Further, auditor must apply alternate audit procedures:

- Make summary of those information
- Ask snapshot of critical points
- For critical points – how those addressed

What Is Audit Documentation? — SA 230 Definition



SA 230- para 8

Documentation must be sufficient to enable an experienced auditor having NO PREVIOUS CONNECTION with the engagement to understand:

- (a) The nature, timing and extent of audit procedures performed to comply with SAs and applicable legal/regulatory requirements
- (b) The results of the audit procedures performed, and the audit evidence obtained
- (c) Significant matters arising during the audit, conclusions reached thereon, and significant professional judgments made

'Experienced Auditor' Defined (Para 6c – SA 230):

- Practical audit experience + reasonable understanding of: audit processes, SAs, business environment, industry-specific financial reporting issues

Key consequence:

- If a procedure is performed but not documented — for regulatory inspection purposes, it was NOT performed



LEADERSHIP



**ETHICAL
REQUIREMENTS**



**CLIENT
ACCEPTANCE
and/or
CONTINUANCE**



**HUMAN
RESOURCE**



MONITORING

ENGAGEMENT PERFORMANCE

SQC 1- PILLARS & ELEMENTS

Audit Documentation dependencies and Generic requirements

The form and content of documentation depends on various factors such as:

- Size, nature and type of entity.
- Risk assessment.
- Materiality.
- Sampling methods.
- Requirements as per laws and regulations.

In general, a working paper may contain the following:

- Risk and controls relevant to the area.
- Assertions to be tested and satisfied.
- Substantive and analytical procedures performed.
- Persons performing/reviewing the work.
- Dates on which the work was performed/reviewed.
- Extent of review.
- Documents prepared by client.
- Nature, type and size of the entity.

Permanent Audit File (PAF) vs Current Audit File (CAF)

Permanent Audit File — PAF - illustrative

- MOA, AOA, Certificate of Incorporation
- Key management personnel, organisation chart
- Prior year audited FS and audit reports
- Key agreements: loan, lease, JV, major contracts
- Tax registrations — PAN, TAN, GST, Import-Export
- Signed engagement letters (prior years)
- Tax assessment orders
- Related party master list (updated annually)
- Prior year CARO / regulatory significant matters
- Communication with previous Auditors

Current Audit File — CAF – illustrative

- Engagement acceptance / independence declarations
- Overall audit strategy and audit plan
- Materiality and performance materiality calculations
- Risk assessment memorandum (SA 315)
- Area-specific working papers (all significant areas)
- External confirmation control register
- Completion memorandum
- Management representation letter (SA 580)
- Communication to TCWG (SA 260) + Final signed audit report

Pre-Engagement & Planning Documentation — SA 210, SA 220, SA 300



SA 210 — Engagement Letter:

- Signed engagement letter on PAF; recurring audits — assess need for re-issuance; acceptance/continuance assessment; predecessor auditor communication (new audits)

SA 220 — Engagement QC:

- Independence declaration (all team); competence memo; EQCR sign-off (if applicable); consultation records; engagement partner dated sign-off before report

SA 300 — Audit Strategy:

- Scope, timing, direction; preliminary materiality; significant risks; planned procedures; timing of key activities

SA 300 — Audit Plan:

- N-T-E of risk assessment procedures per area; N-T-E of further audit procedures at assertion level; basis for any changes to plan during audit

Smaller Entity Note (ICAI):

- A brief planning memo from prior year, updated after discussions with owner-manager, can serve as documented audit strategy if it covers SA 300, Para 7 matters

SA 240 — Fraud: Mandatory Documentation Requirements



Fraud Risk Assessment Memo:

- Prepared at planning stage; addresses fraud risk factors — incentive/pressure, opportunity, attitude/rationalisation (fraud triangle)

Brainstorming Session:

- Meeting notes — date, attendees, key matters discussed; focused specifically on fraud risks; engagement partner must participate (SA 315, Para 10)

Unpredictability:

- Specifically document how unpredictability was incorporated into audit procedures each year

Presumed Fraud Risks (SA 240, Para 26-31):

- Revenue recognition and management override of controls — always presumed; document response procedures

Journal Entry Testing:

- Risk-based selection criteria; items selected; testing results — mandatory (SA 240, Para 32(a))

Management Inquiries:

- Document responses to fraud inquiries from management AND those charged with governance — assess consistency
- Section 143(12) of Companies Act 2013 reference to Fraud reporting and relevant procedures – if applicable

Key Working Paper Takeaways — 7 Standards

SA 315 Risk matrix, 5 IC components, team discussion notes, significant risk memo — MANDATORY for every audit

SA 320 Materiality = benchmark + % + rationale. Performance materiality separately. Any revision documented with reasons.

SA 505 Confirmation control register for EVERY confirmation. Non-responses MUST have alternative procedures documented.

SA 550 Independent corroboration of RP list (not just management). Disclosure review against AS 18 / Ind AS 24. Specific MRL clause.

SA 700 Completion memo → EP sign-off → report. Every modification needs a dedicated 'Basis for...' WP.

SA 705 Pervasiveness memo mandatory for Adverse/Disclaimer. Material vs pervasive distinction must be documented explicitly.

SA 706 EOM: only with unmodified opinion. OM: for auditor's communication needs. Each requires separate WP with reasoning.

SA 315

Identifying & Assessing Risks of Material Misstatement

SA 315 — Findings & Common error

⚠️ NFRA / Quality Review/ Peer Review Alert

Most common SA 315 finding: Risk assessment is a copy-paste of prior year with no entity-specific analysis. Generic risks and generic procedures are the hallmarks of a deficient audit.

Finding 1 — Generic risk matrices:

- 'Revenue risk — high; expenses risk — medium' is NOT a risk assessment under SA 315.
- Risks must be linked to specific assertions (e.g., 'Revenue — completeness — risk that channel sales are not recorded in correct period — HIGH')

Finding 2 — No IC documentation for significant processes:

- For manufacturing entities, procurement/inventory processes must have walkthrough documentation.
- For NBFCs, credit appraisal process walkthrough is essential. Process-level IC documentation is mandatory for significant processes

Finding 3 — Engagement partner absent from team discussion:

- SA 315, Para 10 requires engagement partner participation. 'Discussed separately with manager' does not satisfy this requirement. Note must show EP's name, date, and key inputs from EP

Finding 4 — Significant risks with no response procedures:

- SA 315, Para 27-28: Once an area is identified as a significant risk, the WP must document WHY it is a significant risk AND the specific procedures designed to address it — otherwise the risk identification serves no purpose

SA 315 — Risk Assessment Process: Step-by-Step Documentation Flow

SA 315

1

Step 1

Understand Entity

MOA/AOA, nature of business, industry, regulatory environment, ownership & governance

2

Step 2

Understand IC

5 components; walkthrough for significant processes; ITGC assessment

3

Step 3

Team Discussion

Date, attendees, EP present; susceptibility to misstatement; fraud risks

4

Step 4

Identify Risks

Classes of transactions, balances, disclosures; fraud risks; significant risks

5

Step 5

Assess RMM

At FS level and assertion level; separate IR and CR; link to materiality

6

Step 6

Link to Procedures

Risk-responsive audit plan; SA 330 procedures; significant risk procedures

7

Step 7

Document & Update

Update if new information changes risk assessment; document revisions with reasons

SA 320

Materiality in Planning & Performing an Audit

SA 320 — Findings & Common Errors

⚠️ NFRA / Quality Review/Peer Review Alert

Second most common documentation deficiency: materiality computation is missing, or the % was chosen without any documentation of the reasoning the benchmarks.

Error 1 — Materiality set retrospectively:

- Materiality must be determined at the planning stage. Setting it at the end of the audit to ensure existing misstatements fall below the threshold violates SA 320 fundamentally. NFRA looks at the date of the materiality computation WP

Error 2 — No reasoning for benchmark choice:

- Stating '5% of PBT = ₹X lakh' without explaining why PBT is the appropriate benchmark is insufficient. Document: primary users of FS, what they focus on, and why chosen benchmark best reflects that focus

Error 3 — Performance materiality = Overall materiality:

- Setting PM equal to OM defeats its purpose. PM must be BELOW OM to provide a buffer for aggregate undetected misstatements. Document the % reduction and reasoning (prior year errors, complexity, risk level)

Error 4 — Materiality not revised despite significant changes:

- If a major business development occurs mid-audit (sale of division, impairment), materiality must be revisited. Failure to revise materiality when circumstances change is a SA 320, Para 13 violation

Materiality template Percentage Determination-		Source- ICAI CAQD template
Benchmark		Suggested % of Materiality Threshold based upon Risk Assessment -
1	Turnover	High RoMM =>0.5% <0.70%
		Medium RoMM >0.70% <=0.80%
		Low RoMM >0.80% <=1%
2	Profit Before Tax or Normalised (or adjusted) Profit Before Tax	High RoMM =>5% <7%
		Medium RoMM >7% <=8%
		Low RoMM >8% <=10%
3	Net Asset Value/Total Asset	High RoMM =>1% <1.3%
		Medium RoMM >1.3% <=1.6%
		Low RoMM >1.6% <=2%
4	Total Equity/ Owner Capital/Shareholder Fund	High RoMM =>2% <3.15%
		Medium RoMM >3.15% <=3.85%
		Low RoMM >3.85% <=5%
5	user defined benchmark- any other	user defined
6	user defined benchmark- any other	user defined
Auditor Rationale for selecting said benchmark and percentage		(mandatory)

SA 320 — Materiality Benchmarks: Which to Use & Why

Benchmark	Typical %	Most Appropriate For	Documentation Note
Profit Before Tax (PBT)	5–10%	Profit-oriented entities — most common benchmark	Document why PBT was chosen; address if PBT is unusually high/low
Normalised / Adjusted PBT	5–10%	Entity with one-time items distorting PBT — use adjusted PBT	Document adjustment made; basis for normalization
Total Revenue / Turnover	0.5–1%	Low margin entities; financial service entities; NBFCs	Revenue is primary driver of users' assessment
Total Assets	0.5–2%	Asset-intensive entities; banks; investment companies; funds	Asset quality is primary focus of users
Net Assets / Equity	1–2%	Not-for-profit entities; entities with net loss	Focus on financial position rather than performance
Expenditure	0.5–1%	Public sector / government entities; non-profits; cost-based entities	Expenditure is primary accountability measure
Profit before remuneration & tax	5–10%	Owner-managed SMEs where owner takes profit as remuneration	ICAI Impl. Guide SA 230, Q16 — specific guidance for smaller entities
Gross Profit	1–5%	Entities where GP margin is more stable than PBT	Document reasoning for choosing GP over PBT

Overall Materiality (OM):

- The magnitude of omission or misstatement that could reasonably influence the economic decisions of users — set at PLANNING STAGE and documented with benchmark and % applied

Performance Materiality (PM):

- Set BELOW overall materiality to reduce to an appropriately low level the probability that aggregate of uncorrected and undetected misstatements exceeds materiality — typically 50-75% of OM

Specific Materiality:

- For particular classes of transactions, balances or disclosures that users are likely to focus on — e.g., directors' remuneration, related party transactions, segment information

Clearly Trivial Threshold:

- Amount below which misstatements are clearly trivial — typically 3-5% of OM — document the threshold and basis

Revision of Materiality:

- If new information requires revision of OM or PM during the audit — document the revised amount, the reason for revision, and the impact on planned procedures

Qualitative Factors:

Some misstatements below the quantitative threshold may still be material due to qualitative factors — e.g., disclosure of related party transactions, remuneration disclosures, non-compliance with law

SA 505

External Confirmations

SA 505 — Most Critical Deficiencies

⚠️ NFRA / Quality Review/Peer Review Alert

Confirmations sent, no responses received, no follow-up, no alternative procedures — and the balance accepted. This is a recurring NFRA finding across multiple inspection reports.

Critical Finding 1 — Confirmations routed through management:

- SA 505, Para 7: The auditor must maintain control over the confirmation process. If management prepares the letters and collects responses, independence is compromised. Inspect: Who addressed the envelopes? Who collected the responses? Document control maintained by auditor

Critical Finding 2 — Accepting 'management-obtained' confirmations:

- If management says 'we have received confirmations from all parties — here they are', these are NOT external confirmations under SA 505. The auditor must independently obtain confirmations. Management-obtained responses do not qualify

Critical Finding 3 — No follow-up on non-responses:

- SA 505, Para 12: Non-response requires alternative procedures — not acceptance. Document: (a) 1st reminder date, (b) 2nd reminder date, (c) alternative procedures performed, (d) conclusion. Without this, the WP fails the SA 505 standard

Critical Finding 4 — Confirmation exceptions ignored:

- Every difference between confirmed balance and books must be individually reconciled. Common issues: timing differences (credit notes, payments in transit), disputes. Document the nature, amount, and resolution of each exception

SA 505 — External Confirmations: Critical Documentation Requirements

NFRA / Quality Review/Peer Review Alert

Auditors sent positive confirmations, received no responses, but accepted non-responses without any alternative procedures. SA 505, Para 12 is unambiguous — alternative procedures are mandatory for every non-response.

- Confirmation control register: entity, balance confirmed, date sent, type (positive/negative), date received, response, exceptions — for EVERY confirmation
- Positive non-responses: minimum 2 follow-up attempts documented; then alternative procedures (agree to invoices, receipts, contracts)
- Exceptions / differences: each individually reconciled; supporting documents on file; resolution documented
- Auditor controls the process: confirmations must NOT pass through client's hands — document control maintained
- Bank confirmation: ICAI prescribed format used; all items in certificate ticked off against WP; copy of certificate on file
- Debtors confirmation: stratification approach; selection basis; overall coverage ratio; conclusion on adequacy of evidence

SA 505 — Purpose, Types & Documentation Framework

Purpose:

- External confirmation is a process of obtaining direct written responses from a third party (the confirming party) to address specific information — it is among the most reliable forms of audit evidence (SA 500 reliability hierarchy)

Positive Confirmation: (Preferred)

- Requests the confirming party to reply directly to the auditor (a) agreeing with the information given OR (b) providing the information requested. Higher reliability — used for debtors, banks, loans, legal matters

Negative Confirmation:

- Requests the confirming party to respond ONLY if they DISAGREE with the information. Lower reliability — appropriate only when: RMM is low; large population of small homogenous items; low exception rate expected; no reason to believe recipient will disregard

Reliability Principle:

- Evidence obtained directly by the auditor from an external party who responds independently is MORE reliable than evidence obtained from the entity (SA 500). Control over the confirmation process is essential — must NOT pass through management

Mandatory Documentation (SA 505, Para 7-8):

- Auditor must maintain control over confirmation process: design requests; send directly; receive responses directly. Any attempt by management to restrict/intercept must be documented and assessed

SA 505 — Non-Response Protocol: Mandatory Steps

1

Confirmation Sent

Directly by auditor; not through management; record date

2

No Response by Deadline

Follow up with 2nd reminder; document date and method

3

Still No Response

3rd reminder or direct call; document; consider management restriction

4

Design Alt. Procedures

For each non-response: agree to invoices, receipts, contracts, subsequent payments

5

Perform Alt. Procedures

Perform and document each alternative procedure; record result

6

Assess Adequacy

Are alt. procedures sufficient? Document conclusion; update evidence assessment

7

Conclude on Assertion

Non-response summary memo: coverage %, conclusion on adequacy

SA 505 — Bank Confirmations & Debtor Confirmations: Specific Requirements

SA 505

Bank Confirmation (High Priority)

- Use ICAI prescribed bank confirmation format — not a self-designed letter
- Covers: all bank accounts; balances; overdraft/CC limits and utilised amounts; fixed deposits pledged; guarantees issued; securities held
- Obtain from EACH bank — separate confirmation for each banking relationship
- Certificate from bank on bank's letterhead — authorised signatory
- Tick off each item in bank certificate against WP — document cross-reference
- If items in certificate differ from books: reconcile; document explanation; assess impact
- Bank confirmation is primary evidence for cash & bank — analytical procedures alone are insufficient

Debtor Confirmations (Trade Receivables)

- Stratification: Top debtors by value selected first; cover $\geq 60-70\%$ of total debtor balance by value
- Selection basis documented: materiality, risk (overdue, disputed), coverage ratio
- Positive confirmation for high-value / high-risk debtors; negative only for low-risk, large-population, small-value
- Control maintained: confirmations sent by auditor directly; responses received by auditor
- Confirmation control register maintained for all confirmations
- Non-responses: follow-up $\times 2$; alternative procedures for all non-responses (subsequent receipts, invoice review)
- Coverage summary: amount confirmed, % of total debtors, response rate, exceptions resolved

SA 550

Related Parties

Identification · Disclosure Adequacy · Arm's Length Assessment · Management Override Risk

NFRA / Quality Review/ Peer Review Alert

Relying entirely on management's related party list without any independent corroboration is the single most common SA 550 deficiency — and creates the greatest fraud risk exposure.

Finding 1 — No independent corroboration of RP list:

- 'Verified related party list as provided by management' is NOT compliance with SA 550. The auditor must independently verify using ROC/MCA records, board minutes, and shareholding data.
- Document: (a) source of independent data, (b) items checked, (c) any additions found, (d) management's explanation

Finding 2 — No review of board minutes for RP approvals:

- Board minutes are a primary source of information on related party transactions — particularly those requiring board/AC approval under Companies Act, 2013 (Sec 188).
- Not reviewing board minutes is a fundamental SA 550 gap

Finding 3 — 'Arm's length' asserted without basis:

- Disclosure says transactions were 'at arm's length terms' — but audit file contains no documentation of how arm's length was assessed. This is insufficient. For significant RP transactions, document: comparable transactions, market rates, or third-party pricing evidence

Finding 4 — KMP definition too narrow:

- KMP includes not just directors but also CFO, Company Secretary, CEO and other persons with significant authority. Spouses and dependent children of KMP are also related parties under Ind AS 24. Ensure RP list covers full scope

Step 1 — Obtain Management's List:

- Request comprehensive list of related parties from management (written); include all entities, individuals and relationships within the definition of applicable accounting standard

Step 2 — Independent Corroboration (MANDATORY):

- Cross-check management's list against: (a) MCA/ROC filings — shareholding patterns, director details; (b) Board minutes — approvals for transactions with related parties; (c) Shareholders register; (d) Management accounts / MIS for significant transactions with common parties

Step 3 — Alertness During Audit:

- During all audit procedures — remain alert for undisclosed related party transactions: unusual terms in contracts, significant unexplained transactions, loans to individuals without normal commercial terms

Step 4 — Assess Completeness of Disclosures:

- Map each identified RP transaction to the disclosure in the financial statements — clause by clause check against AS 18 / Ind AS 24 requirements; document gaps and management's response

Step 5 — Management Representation:

- Obtain specific written representation: (a) have disclosed all related parties; (b) all related party transactions have been appropriately recorded; (c) no undisclosed related party transactions

SA 700 · SA 705 · SA 706

Forming Opinion & Audit Reporting

SA 700 Series — Reporting Documentation Requirements

Standard	Key Documentation	Common Inspection Finding
SA 700 (Rev.)	Basis for opinion — link to completion memo and per-area conclusions; EP sign-off dated before report	EP sign-off date after report date; missing overall conclusion memo
SA 701 — KAM	KAM WP: (1) Selection rationale; (2) Procedures performed; (3) Conclusion; (4) Consistency with report language	WPs show only 'reviewed management's analysis' — no independent procedures
SA 705 (Rev.)	Pervasiveness assessment memo; nature/amount of misstatement; legal consultation; TCWG communication	Modification not communicated to TCWG before finalising report
SA 706 (Rev.)	EOM: specific matter + why fundamental to users + relevant FS disclosure reference	EOM used as substitute for qualification — not appropriate
SA 710	Comparative information procedures; prior year auditor communication (if first year)	No documentation of comparative procedures
SA 720 (Rev.)	List of other information documents; reading date; consistency check memo; material	Other information not read before audit report issued

Objective (SA 700, Para 6):

- Form an opinion on the financial statements based on an evaluation of conclusions drawn from audit evidence obtained, and express the opinion clearly in writing

Auditor Shall evaluate (SA 700, Para 12,): mandatorily

The auditor **shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework.**

This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments

Auditor Shall evaluate (SA 700, para 13): mandatorily

In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:

- a) The financial statements adequately disclose the significant accounting policies selected and applied;
- b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
- c) The accounting estimates made by management are reasonable;
- d) The information presented in the financial statements is relevant, reliable, comparable, and understandable;
- e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and (Ref: Para. A4)
- f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

Auditor Shall evaluate (SA 700, Para 14): mandatorily

When the financial statements are prepared in accordance with a fair presentation framework, the evaluation required by paragraphs 12–13 shall also include whether the financial statements achieve fair presentation. The auditor's evaluation as to whether the financial statements achieve fair presentation shall include consideration of :

- a) The overall presentation, structure and content of the financial statements; and**
- b) Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.**

Certain critical aspects of SA 700 - Para 25(b), A22,A23,A 24

Opinion Para (special emphasis para 25(b) & A22)

25. When expressing an 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:

(b) In our opinion, the accompanying financial statements give a true and fair view of [...] in accordance with [the applicable financial reporting framework]. (Ref: Para. A19–A26)

[...] is crucial in para 25(b) – refer para A22 for the same

Example of opinion paragraph – nuances thereof

Opinion

We have audited the standalone financial statements of ABC Company Limited (“the Company”), which comprise the balance sheet as at 31st March 20XX, and the statement of Profit and Loss, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information [(in which are included the Returns for the year ended on that date audited by the branch auditors of the Company’s branches located at (location of branches)].

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Companies Act, 2013 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 20XX, and its profit/loss, and its cash flows for the year ended on that date.

Opinion

We have audited the standalone financial statements of ABC Company Limited (“the Company”), which comprise the balance sheet as at 31st March 20XX, and the statement of Profit and Loss, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information [(in which are included the Returns for the year ended on that date audited by the branch auditors of the Company’s branches located at (location of branches)].

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Companies Act, 2013 in the manner so required and give a true and fair view in conformity with the Accounting Standards specified under section 133 of the Act and the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 20XX, and its profit/loss, and its cash flows for the year ended on that date.

Certain critical aspects of SA 700 - Para 25(b), A22 ,A23,A24

A22 In the case of financial statements prepared in accordance with a fair presentation framework, the auditor's opinion states that the financial statements present fairly, in all material respects, or give a true and fair view of, the matters that the financial statements are designed to present .

For example, in the case of financial statements of companies prepared in accordance with the Companies (Indian Accounting Standards) Rules, 2015, these matters are: ***true and fair view of the state of affairs of the company as at the end of its financial year and its profit or loss, (changes in equity) and its cash flows for the year ended on that date.***

Consequently, the [...] in paragraph 25 and elsewhere in this SA is intended to be replaced by the words in italics in the preceding sentence when the applicable financial reporting framework is Indian Accounting Standards (Ind AS)/ Accounting Standards or, in the case of other applicable financial reporting frameworks, be replaced with words that describe the matters that the financial statements are designed to present.

Certain critical aspects of SA 700 - Para 25(b), A22,A23 ,A24

A23 The identification of the applicable financial reporting framework in the auditor's opinion is intended to advise users of the auditor's report of the context in which the auditor's opinion is expressed; it is not intended to limit the evaluation required in paragraph 14. The applicable financial reporting framework is identified in such terms as

“...In accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013” or

“...In accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India” or

“... in accordance with the International Financial Reporting Standards”.

A24. When the applicable financial reporting framework encompasses financial reporting standards and legal or regulatory requirements, the framework is identified in such terms as **“...in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013”**.

QUICK OVERVIEW — FOUR TYPES OF REPORT PARAGRAPHS

Unmodified Opinion

"Clean Chit"

- ▶ FS give TFV in all material respects
- ▶ No significant disagreements
- ▶ No scope limitations
- ▶ Going concern not in doubt

Emphasis of Matter

Draw attention — NOT modify

- ▶ Matter properly presented/disclosed in FS
- ▶ Fundamental to user's understanding
- ▶ Does NOT mean opinion is modified
- ▶ Must use wording: 'without modifying our opinion'

Modified Opinion

Qualified / Adverse / Disclaimer

- ▶ Qualified: Material but NOT pervasive misstatement / limitation
- ▶ Adverse: Misstatements are material AND pervasive
- ▶ Disclaimer: Scope limitation so significant — no opinion possible
- ▶ Always → add Basis for Modification paragraph

Other Matter

Beyond FS — Not Disclosed

- ▶ Relevant to users but NOT required to be in FS
- ▶ Not required to be presented in FS
- ▶ Auditor communication/prior period comparison
- ▶ Statutory / regulatory requirements

MODIFIED OPINION | SA 705 | Three Types

WHEN IS MODIFICATION REQUIRED?

(A) Auditor concludes FS are **materially misstated** | (B) Auditor is **unable to obtain sufficient appropriate audit evidence** and cannot conclude that FS are free from material misstatement.

QUALIFIED OPINION

Material BUT NOT Pervasive

Triggers:

- Misstatement exists — material but limited in scope
- Unable to obtain evidence for specific matter — but rest of FS ok
- Specific notes disclosure missing but other FS reliable

Wording (extract):

"Except for the matter described in the Basis for Qualified Opinion paragraph, in our opinion..."

"Pervasive" means: (a) not confined to specific elements/accounts/items, OR (b) if confined — represents/could represent a substantial portion of FS, OR (c) in relation to disclosures — is fundamental to user's understanding [SA 705 Para 5(b)]

ADVERSE OPINION

Material AND Pervasive Misstatements

Triggers:

- Misstatements affect most / all financial statement elements
- Management refuses to correct pervasive errors
- FS are so misleading as to be considered unreliable

Wording (extract):

"In our opinion, because of the significance of the matters described in the Basis for Adverse Opinion paragraph, the aforesaid financial statements do NOT give a true and fair view..."

DISCLAIMER OF OPINION

Scope Limitation — Material AND Pervasive

Triggers:

- Unable to obtain sufficient evidence on critical areas
- Multiple uncertainties make it impossible to form opinion
- Imposed scope restrictions — management or circumstance

Wording (extract):

"Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion..."

MODIFIED OPINION — Basis Paragraph, Placement & Practical Aspects

BASIS FOR MODIFICATION PARAGRAPH

MANDATORY: Placed IMMEDIATELY BEFORE the opinion paragraph. Cannot be placed after.

CONTENT: Must include description of the matter giving rise to modification with clear reference to the specific FS element/note/amount.

QUANTIFICATION: Where practicable, include the financial effect — amount of misstatement, unaudited balance, etc.

MANAGEMENT: If management has disclosed the matter, refer to the disclosure. If not — state so explicitly.

SCOPE LIMIT: Where limitation is imposed by circumstances, state the cause. If imposed by management, state the restriction.

GOING CONCERN: If modification relates to going concern, describe the facts including period management has assessed.

SA 260: Matter to be communicated to TCWG before finalizing report. Document in engagement quality review.

CARO 2020: Even if CARO annexure is separate, basis para must standalone explain the matter in main report.

PRACTICAL ASPECTS — THINGS TO KEEP IN MIND

- ▶ Communicate with TCWG (SA 260) — document disagreement if any
- ▶ Engage Quality Control Reviewer (SA 220) before issuing
- ▶ Consider if matters can be resolved pre-issuance (adjust FS)
- ▶ If management refuses correction → escalate to TCWG / Board
- ▶ If TCWG also refuses → assess resignation implications
- ▶ RoC filings — modified report triggers enhanced scrutiny
- ▶ Banks / NBFCs — RBI may initiate supervisory action on adverse reports
- ▶ Listed companies — SEBI can probe on adverse / disclaimer report
- ▶ Document ALL evidences supporting the modification decision
- ▶ ROC/MCA filing: Modified report must accompany financial statements

SA 705 — Modifications to Opinion: Decision Framework



Step 1 — Is there a misstatement or scope limitation?

- Misstatement: Financial statements are not prepared in all material respects in accordance with applicable FRF. Scope limitation: Unable to obtain sufficient appropriate audit evidence on a matter
- Step 2 — Assess MATERIALITY:**
- Is the matter material? If neither material nor pervasive → No modification needed. If material → proceed to assess pervasiveness
- Step 3 — Assess PERVASIVENESS (SA 705, Para 5):**
- Pervasive effects are those that: (a) are not confined to specific elements of FS; (b) if confined, represent/could represent a substantial proportion of the FS; (c) relate to disclosures that are fundamental to users' understanding
- Qualified Opinion (Para 7):**
- Misstatement or scope limitation is MATERIAL but NOT PERVASIVE — 'except for the effects of the matter' — Basis for Qualified Opinion paragraph required
- Adverse Opinion (Para 8):**
- Misstatement is MATERIAL AND PERVASIVE — financial statements do NOT give a true and fair view — Basis for Adverse Opinion paragraph required
- Disclaimer of Opinion (Para 9):**
- Scope limitation is MATERIAL AND PERVASIVE — auditor CANNOT express an opinion — Basis for Disclaimer paragraph required. Also: if independence impairment discovered after accepting engagement

SA 705 — Modified Opinions: Mandatory Working Papers for Each Type

SA 705

Qualified Opinion — Required WPs

- Nature and amount of misstatement — detailed schedule
- Materiality assessment: why material but not pervasive
- Pervasiveness assessment memo — explicit documentation of 'not pervasive' conclusion
- Management response to the misstatement — written or documented verbally
- Communication to TCWG (Audit Committee) — before report issued
- Effect of misstatement on specific line items in FS
- 'Except for' clause: specific description of the matter and its financial impact

Adverse / Disclaimer — Required WPs

- Pervasiveness assessment memo — why effects ARE pervasive (for Adverse); why scope limitation IS pervasive (for Disclaimer)
- Legal consultation (if any) — particularly for Adverse or Disclaimer
- Communication to TCWG — mandatory, detailed, formal written communication
- Management's response to auditor's findings — document thoroughly
- For Disclaimer: nature of limitation; procedures attempted; why no alternative procedures are possible
- Going concern interaction: if GC is an issue, document the interaction between GC conclusion and

- Subsequent event considerations — if modification arises from a subsequent event

SA 705 — Critical Documentation Requirements & NFRA Findings

SA 705

⚠️ NFRA /Quality Review/ Peer Review Alert

The most common SA 705 finding is modification without a pervasiveness memo. The distinction between 'material but not pervasive' (Qualified) and 'material AND pervasive' (Adverse/Disclaimer) is a professional judgment — and it must be documented.

Mandatory: Pervasiveness Assessment Memo

- For EVERY modification — document: what is the matter, why it is material, and whether it is pervasive or not pervasive. The assessment must be explicit. 'The misstatement is material but limited to trade debtors balance — effects are not pervasive to the FS as a whole' is the type of documented conclusion required

Mandatory: Communication to TCWG BEFORE Report

- SA 260 + SA 705: The modified opinion must be communicated to the Audit Committee (TCWG) before the audit report is issued. Document: date of communication, form (written/meeting), management/TCWG response. Post-report communication does not comply

Mandatory: Basis for Modified Opinion Paragraph Support

- Every modification produces a 'Basis for Qualified/Adverse/Disclaimer of Opinion' paragraph in the report. The WP must contain the detailed support for every statement made in that paragraph — it must be fully traceable

Scope Limitation vs Disagreement: Document the Distinction

- A scope limitation (inability to obtain evidence) and a disagreement (misstatement identified) are fundamentally different. The WP must clearly document: whether it is a limitation or a disagreement, what was attempted, and what evidence is missing

SA 706, Para 6 - Objective

The objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to:

- (a) A matter, **although appropriately presented or disclosed in the financial statements**, that is of such importance that it is fundamental to users' understanding of the financial statements; or
- (b) As appropriate, any other **matter that is relevant to users' understanding of the audit**, the auditor's responsibilities or the auditor's report.

Para 7 -

Emphasis of Matter paragraph – 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.

SA 706 — Emphasis of Matter : Documentation Requirements

- Used when auditor wants to draw users' attention to a matter ALREADY PRESENTED OR DISCLOSED in the FS that is of fundamental importance to users' understanding. Key: EOM is ONLY used with an UNMODIFIED opinion — if modification is needed, use SA 705

Common EOM Scenarios:

- (a) Going concern — material uncertainty adequately disclosed; (b) Significant subsequent event; (c) Major litigation disclosed in notes; (d) Significant uncertainty regarding accounting estimate; (e) Early adoption of new accounting standard

EOM Working Paper Must Contain:

- (a) The specific matter being emphasised;
- (b) Where it is disclosed in the FS (note reference);
- (c) Why it is of fundamental importance to users' understanding;
- (d) Confirmation the matter is presented/disclosed adequately;
- (e) TCWG communication

SA 706 — Other Matters



Other Matter (OM) Paragraph (SA 706, Para 9):

- Draws users' attention to a matter NOT PRESENTED or NOT DISCLOSED in the FS — relevant to users' understanding of the audit, the auditor's responsibilities, or the auditor's report.

Examples: prior year audited by another auditor; branch audit done by other auditor, component auditor of subsidiary/associate is other than principal auditor

OM Working Paper Must Contain:

- (a) The specific matter; (b) Why the auditor considers it necessary to communicate; (c) Confirmation the matter is not required to be and is not presented in the FS; (d) TCWG communication

SA 706 — Emphasis of Matter & Other Matter: Documentation Checklist

SA 706

- EOM: specific matter identified and documented — name the matter precisely (e.g., 'going concern uncertainty disclosed in Note X') *[SA 706, Para 7]*
- EOM: reference to where the matter is disclosed in the FS — Note number, page, paragraph *[SA 706, Para 7(b)]*
- EOM: WHY it is of fundamental importance to users' understanding — document the reasoning *[SA 706, Para 7(a)]*
- EOM: confirm matter is PRESENTED / DISCLOSED in the FS (not missing from FS) *[SA 706, Para 7(b)]*
- EOM: confirm opinion is UNMODIFIED — EOM not used when modification is appropriate *[SA 706, Para A1]*
- EOM: communication to TCWG — that EOM will appear in report; their acknowledgement *[SA 706 + SA 260]*
- OM: specific matter documented — WHY auditor considers communication necessary *[SA 706, Para 9]*
- OM: confirm matter is NOT presented in FS and NOT required to be presented in FS *[SA 706, Para 9]*
- OM: Communication to TCWG documented *[SA 706 + SA 260]*
- EOM / OM paragraph in report is consistent with WP — trace each sentence to WP content *[SA 706]*
- NOT used as substitute for qualification — assess and document this explicitly *[SA 706, Para A1]*