
Revised Auditor's Reports

Standard on Auditing (SA) – 700 Revised

Forming an Opinion and Reporting on Financial Statements

Overview

- ▶ Introduction
- ▶ Scope
- ▶ Objectives
- ▶ Definition
- ▶ Requirements
 - ▶ Forming an opinion on the financial statements
 - ▶ Form of opinion
 - ▶ Auditor's report
 - ▶ Supplementary information presented with the financial statements

Scope

- ▶ Auditor's responsibility to form an opinion on the financial statements.
- ▶ Form & content of auditor's report issued as a result of an audit of FS.
- ▶ Modified opinion, EMP, OMP dealt with by SA 705 & 706.
- ▶ SA 700 is in the context of general purpose FS:
 - ▶ FS under special purpose framework are dealt by SA 800 & SA 805.
- ▶ Promotes consistency in audit reports.

Auditor's Objectives

- ▶ Form an opinion on FS based on evaluation of conclusions drawn from audit evidence

AND

- ▶ Express clearly that opinion through a written report that also describes the basis for opinion

DEFINITIONS

- ▶ General purpose financial statements
- ▶ General purpose framework – A financial reporting framework designed to meet the common financial information needs of a wide range.
- ▶ Unmodified opinion – The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Financial statements means a complete set of general purpose financial statements including the related notes .

Requirements – Forming an opinion

- ▶ Whether FS are prepared in all material respects in accordance with applicable FRF.

- ▶ To form this opinion, auditor needs to conclude whether he/ she has obtained reasonable assurance that FS as a whole are free of material misstatements (fraud/ error).Such conclusion shall take into account ;
 - ▶ Sufficient appropriate audit evidence
 - ▶ Whether uncorrected misstatements are material in the aggregate
 - ▶ Evaluation whether the financial statements are prepared in accordance with the applicable framework
 - ▶ whether the accounting policies are consistent,
 - ▶ whether there is a significant bias in the estimates made by the management ,

Requirements – Forming an opinion

- ▶ Whether the information presented is
 - ▶ understandable,
 - ▶ reliable ,
 - ▶ relevant and comparable,
 - ▶ adequate disclosures to enable the intend users understand material transactions , cash flows and entity's state of affairs

- ▶ whether the financial statements achieve fair presentation .

Form of opinion – Unqualified opinion

- ▶ The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Form of opinion- Modified opinion

▶ If the auditor:

- (a) concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- (b) is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor shall modify the opinion in the auditor's report in accordance with SA 705.

Discuss with the management and determine whether it is necessary to modify the opinion in the auditor's report .

Form of opinion- Departure from the reporting framework

- ▶ **Fair Presentation FRF – FS do not achieve fair presentation:**
- ▶ Discuss matter with mgt.
- ▶ Determine need to modify opinion depending upon:
 - ▶ Requirements of FRF; &
 - ▶ How matter is resolved.

- ▶ **Compliance FRF:**
- ▶ If in rare circumstances, auditor concludes FS are misleading, determine whether & how to communicate in audit report after:
 - ▶ Discuss with mgt.
 - ▶ How matter is resolved.

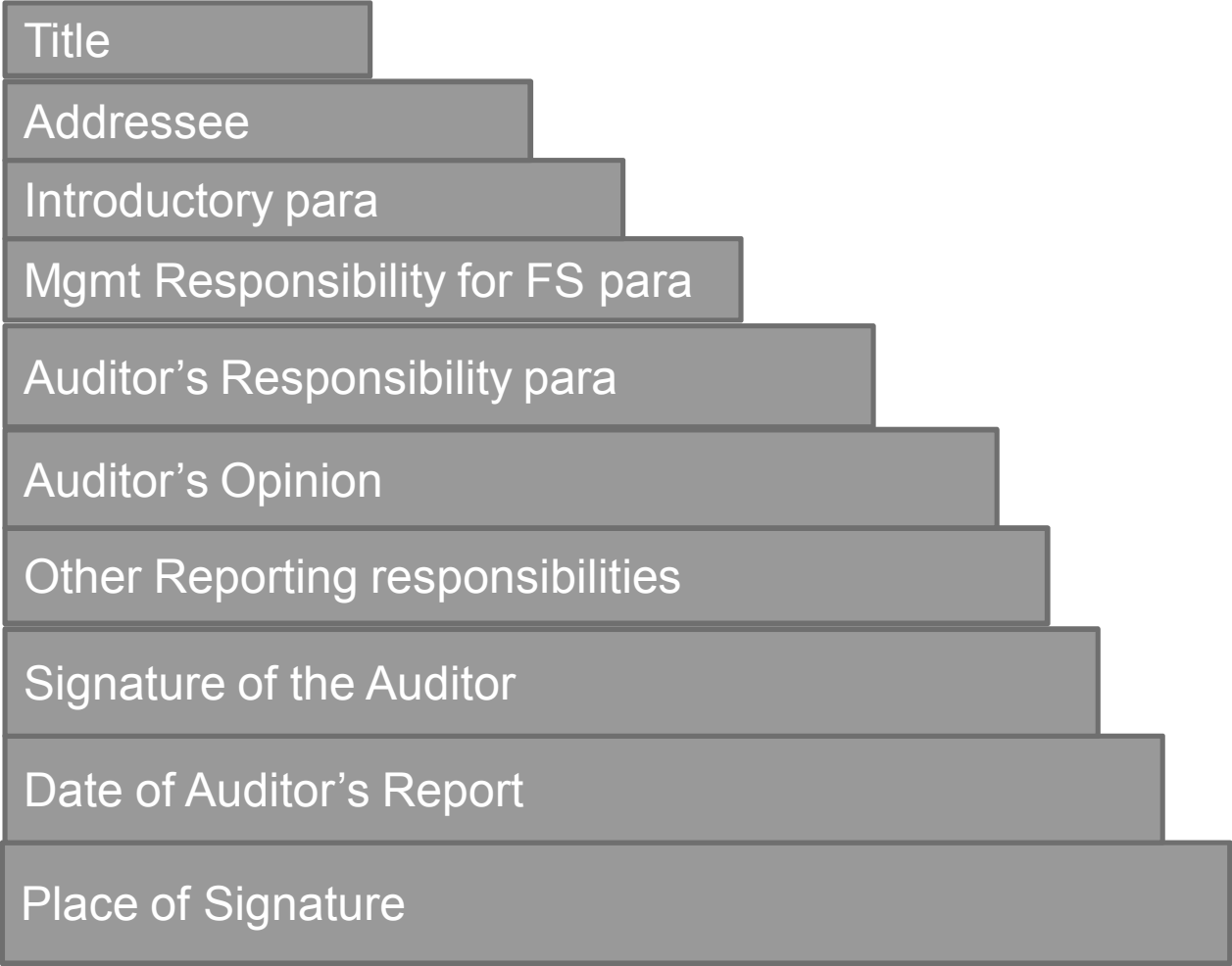
Auditor's report

- ▶ The auditor's report shall describe
 - ▶ Management's responsibility for the preparation of the financial statements
 - ▶ Management is responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework;
 - ▶ Responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's report

- ▶ The auditor's opinion covers the complete set of financial statements as defined by the applicable financial reporting framework.
- ▶ For example, in the case of many general purpose frameworks, the financial statements include:
 - ▶ A Balance Sheet,
 - ▶ Statement of Profit and Loss,
 - ▶ a Cash Flow Statement,
 - ▶ and a summary of significant accounting policies and other explanatory information.
- ▶ In case of some entities, additional information might also be considered to be an integral part of the financial statements.

Elements of Audit Report



Supplementary information

- ▶ Supplementary info presented but not required by FRF:
 - ▶ Evaluate whether Supp Info clearly differentiated from audited FS.
 - ▶ If not, ask mgt to change presentation of unaudited Supp Info.
 - ▶ If mgt refuses, explain in AR that Supp Info is unaudited.

- ▶ If such Supp Info is nevertheless integral part of FS due to its nature & how it is presented, auditor to cover it in his audit opinion